1 **Interpretation and Definitions**

The following words and expressions bear the following meanings, unless the context indicates otherwise:-

1.1 **"Alternative Dispute Resolution"** (ADR) refers to the process of resolving disputes among parties without necessarily resorting to court action, although the agreements and outcomes may be legally binding. ADR processes include conciliation, mediation, adjudication and arbitration.

1.2 **"Board"** means the Board of Directors of the Company and includes the Board when it acts as the deemed Authority under the National Ports Act No. 12 of 2005;

1.3 **"Board Reserved Matters"** means matters reserved by the Board as set out in Annexure "A "of the Delegation of Authority Framework approved by the Board.

1.4 **"CAPIC"** means the Capital Investment Committee, a sub-committee of the Group Executive Committee which has been established to make decisions regarding capital expenditure;

1.5 **"CE"** means Chief Executive of an Operating Division;

1.6 **"Chairperson"** means the person who is appointed as the Chairperson of the Board as per the MOI;

1.7 **"Company"** means Transnet SOC Ltd including its Operating Divisions and Specialist Units, with registration number 1990/000900/30 and **"Transnet"** shall have a corresponding meaning;

1.8 **"Company Strategy"** means the strategy for the Company as approved from time to time by the Board;

1.9 **"Consultant"** means a person, or partners in a firm, or a company or a close corporation who can provide expert or specialised advisory skills, but excludes anyone who also carries out the physical work or provides the end product for Transnet based on his own professional or expert advice. Such consultancy service normally pertains to a specific project and therefore non-repetitive in nature and confined to design work, investigation, or advice on management, financial, business or technical matters;

In short, a consultant does not supply the ultimate end product, but merely gives a recommendation, based on his expertise, of the best solution to a specific problem. That proposed solution, if acceptable to Transnet, still has to be acquired, built or erected by another party and may or may not be connected with the consultant. Excludes any professional services procurement package included in the approved asset procurement package plan for and approved physical asset project.

1.10 **"Delegation of Authority Framework "** means this document, recording the nature and extent of authorities required in order to implement certain actions by or on behalf of the company, including any sub-delegation of authority where permitted and **"Delegation"** shall have a corresponding meaning;

1.11 **"Estimated Total Cost" (ETC)" means costs planned to bring the project into operation. These include costs such as:**

- **Direct activities relating to the project such as building materials, delivery cost thereof;**
- **Project management fees;**
- **Gate review costs (FEL3 and 4);**
- **Transnet Internal Audit Costs;**
- **Group Capital Integration & Assurance;**
- **Preliminaries and general; and**
- **Contingencies.**

**Typical accounting entry type transactions such as capitalisation of borrowing costs and allocated costs are excluded from ETC;**

1.12 **"FRMF"** means Financial Risk Management Framework;

1.13 **"GCE"** means Group Chief Executive;

1.14 **"GCFO"** means Group Chief Financial Officer;

1.15 **"GCSCO"** means Group Chief Supply Chain Officer;

1.16 **"Group Executive Committee"** or **"Group Exco"** means the executive committee established to take responsibility for the day-to-day execution of strategy and running of the Company;

1.17 **"Group Executive (GE) or Group Executive nominee"** refers to the Group Executive responsible for the supporting business or his/her nominee;

1.18 **"Head of Legal"** refers to the most senior employee with a Legal qualification in the respective Legal Department;

1.19 **"International agreements"** means agreements which are required to be construed in accordance with the laws of a foreign jurisdiction including the neighbouring countries;

1.20 **"Memorandum of Incorporation"** or **"MOI"** means the constitutive documents of the Company, as amended;

1.21 **"Memorandum of Understanding"** means a formal agreement between two or more parties. Companies and organizations can use MOUs to establish official partnerships. MOUs are not legally binding but they carry a degree of seriousness and mutual respect, stronger than a gentlemen's agreement.

1.22 **"Neighbouring Countries"** means countries sharing a border with the Republic of South Africa;

1.23 **"Non-Disclosure Agreement/Confidentiality Agreement"** means a contract by which one or more parties agree not to disclose confidential information that they have shared with each other as a necessary part of doing business together.

1.24 **"Operating Divisions"** means the Operating Divisions of Transnet, namely, Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines;

1.25 **"PFMA"** means the Public Financial Management Act 1 of 1999 (as amended), read together with its regulations' including Treasury Regulations;

1.26 **"Prescribed Officer"** means a person who, within a company, performs any function that has been designated by the Minister of Trade and Industry in terms of section 66(10) of the Companies Act, Act 71 of 2008, read with Regulation 38. Within the Company, members of Group Exco are designated Prescribed Officers;

1.27 **"Rental"** means money payable for the hire of movable and immovable property in terms of a lease agreement, but excludes the payment of operational expenses and costs.

1.28 **"Shareholder"** means the Government of the Republic of South Africa represented by the Shareholder Minister.

1.29 **"Shareholder Minister"** means the Minister of Public Enterprises as defined in the MOI;

1.30 **"Shareholder's Compact"** means the shareholder's compact being an agreement entered into pursuant to section 52 of the PFMA between the Shareholder representative and the Board from time to time;

1.31 **"Specialist Unit"** mean all business units of Transnet which have been deemed 'supporting businesses' in terms of the Company Strategy, these include Transnet Property, Transnet Foundation, Transnet Capital Projects and Transnet Corporate Centre. Where a Specialist Unit GE is not a member of the Group Exco, the Group Exco member responsible for such Specialist Unit shall sub-delegate powers to the Specialist Unit's GE;

1.32 **"Subsidiary"** means subsidiary as defined in the Companies Act 71 of 2008 (as amended) and Subsidiaries shall have a corresponding meaning;

1.33 **"Transnet"** means the Company with its Subsidiaries and Operating Divisions/Specialist Units as stated in clause 1.7 above.

1.34 **"Treasury Regulations"** means the regulations issued in terms of section 76 of the PFMA, amended from time to time;

1.35 **"Transnet Total Asset Base"**: refers to the total value of the assets in Transnet and is set at the asset value indicated in the integrated report for the year; and

1.36 **"VAT"** means Value Added Tax. All amounts indicated in the document are exclusive of VAT.

2 **Scope**

This Delegation of Authority Framework records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive, and in turn, by the Group Chief Executive to the members of the Group Executive Committee, in order to implement certain actions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all of the duties, obligations and powers imposed upon the deemed Authority under the National Ports Act 12 of 2005.

3 **Application**

3.1 This Delegation of Authority Framework applies to all employees of the Company, including its Operating Divisions and Specialist Units. It does not apply to any of the Company's subsidiaries. The respective Boards of Directors of the Company will prepare the requisite delegations of authority for those subsidiaries.

3.2 The persons set out in clause 5 below are granted the power and /or authority to perform their functions and responsibilities subject to the limits of authority outlined in clause 5 below, provided that the exercise of such power and/or authority in terms of this delegation is not in conflict with the following:

- PFMA;
- Board Reserved Matters;
- Memorandum of Incorporation;
- Company Strategy;
- Shareholder's Compact;
- the Corporate Plan, Annual Budget and Borrowing Strategy and/or Funding Plan of the Company as approved by the Board from time to time;
- Project and Programme Frameworks;
- Enterprise Risk Management Framework; and
- Any approvals by the Board and the Minister of Finance for the delegation of the power to borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind the Company to any future financial commitment in terms of section 66 of the PFMA.

3.3 This Delegation supersedes any prior Delegations of Authority Framework and takes effect upon the date determined by the Board of Directors.

3.4 The Delegation of Authority Framework shall be sub-delegated to Group Exco and Extended Exco within 30 days from the date of signature by the GCE.

3.5 Any proposal for amendments to this Delegation or to the authorities or the authorities delegated in this Delegation must be submitted in writing to the Transnet Company Secretary for consideration and approval by the Board of Directors.

4 **Delegating Powers**

4.1 A person authorised to exercise any of the authorities set out in clause 5 below ("original bearer of authority") may, in writing, sub-delegate to his/her subordinate ("designate") during his/her temporary absence or for an indefinite period, provided:

4.1.1 the authority is conferred by way of a certificate signed by the original bearer of authority, naming and identifying the designate, and the extent of the authority which is sub-delegated to the designate;

4.1.2 the sub-delegated authority shall only be exercised within the original bearer of authority's respective area of responsibility;

4.1.3 the powers delegated by the original bearer of authority cannot be sub-delegated further by the designate unless explicitly stated in the certificate signed by the original bearer of authority; and

4.1.4 the sub-delegated authority may be revoked in writing, at any time by the original bearer of authority.

4.2 Unless otherwise specifically indicated, approval of any of the matters listed in clause 5 below may be granted by a designate.

4.3 With respect to all matters and authorities specifically listed in clause 5 below, the delegated authority by the GCE to bind the Company is in regard to any business activity or transaction (or a series of related transactions) and is subject to the value in the aggregate of all payments or any consideration made or to be made for any such business activity or transaction(s) being complied with.

4.4 The original bearer of authority or designate must ensure that all the necessary procedures and/or approvals have been fulfilled prior to exercising any of the matters and authorities listed in clause 5 below.

4.5 All delegations of authority, signed by the original bearer of authority and accepted by the designate, must be filed with the Office of the Group Secretariat prior to the effective date.

5 **Company Authorities**

*Limits of authority have been delegated by the Board of Directors to the Group Chief Executive. In the interest of good corporate governance, approval structures have been established in the Company. Requests for approval must follow the approved governing processes and structures for recommendation but the final approval vests with the delegated individual (for example CE, GCFO, GCE) as reflected in the specific delegations set out in this document.*

*In cases where business requirements necessitate that approval be obtained from the delegated authority without the review and recommendation by the relevant governance structures (CAPIC, Group Exco, etc.) this must be reported to the relevant governance structures immediately thereafter.*

The authority to approve the Corporate Plan and Budget of the Company vests with the Board of Directors, provided that it must be submitted to the Shareholder in terms of Section 52 of the PFMA.

**Management's intervention in addressing non-compliance with the DOA**

| | | | |
|---|---|---|---|
| **Approval Authority →** | **OD CE** | **GCFO** | **GCE** |
| **Operating Divisions** | Nil | Nil | Unlimited |
| **Approval Authority →** | **Group Exco Member** | **GCFO** | **GCE** |
| **Specialist Units** | Nil | Nil | Unlimited |

Note: All requests for approval of non-compliance must be made by the OD CE/Group Exco member to the GCE. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

5.1 **Capital Expenditure**

**NOTE 1:** Capital expenditure may only be authorised if the project has been so approved by CAPIC or the relevant divisional CAPIC in accordance with the limits set out in this Delegation of Authority Framework and capital funds have been allocated in the annual Budget of the Company.

**NOTE 2:** Capital expenditure may only be authorised if the project has been approved and a warrant number has been issued by the relevant authority. All requests for capital expenditure exceeding the Divisional CE's limit must be submitted to the Principal Specialist: Governance and Assurance.

5.1.1 **CAPEX in approved budget/Corporate Plan: To commence projects (execution funding)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Approval Authority →** | **OD Exco/CE excluding TFR** | **TFR Exco/CE** | **CAPIC/GCFO** | **Group Exco /GCE** | **Acquisitions and Disposals Committee** | **Board** | **Shareholder Minister** |
| Operating Divisions | Up to but not exceeding R250million | Up to but not exceeding R450million | Up to but not exceeding R800million | Up to but not exceeding R1.5billion | Up to but not exceeding R2billion | Up to but not exceeding R5.2 billion | Exceeding R5.2billion |
| **Approval Authority →** | **Group Exco Member** | **GE: Transnet Property** | **CAPIC/GCFO** | **Group Exco /GCE** | **Acquisitions and Disposals Committee** | **Board** | **Shareholder Minister** |
| Specialist Units | Up to but not exceeding R20million | Up to but not exceeding R50million | Up to but not exceeding R800million | Up to but not exceeding R1.5billion | Up to but not exceeding R2billion | Up to but not exceeding R5.2billion | Exceeding R5.2billion |

Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- Approval limits are per individual project, reported on a monthly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT projects requiring approval must be signed off by the Group Executive: EIMS.

- Acquisitions and Disposals Committee refers to the Acquisitions and Disposal Committee of the Board.
- Group Exco/GCE to be the final approval gate for all capitalisation of maintenance projects (COPEX) single or multi-year irrespective of the value of the project provided that it has been included in the Corporate Plan.
- It is mandatory that submissions to the Group Exco/GCE have been recommended by the approval bodies leading up to the Group Exco/GCE i.e. OD CAPIC and Group CAPIC.
- Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted. e.g. If the FEL study is for an asset that exceeds R250million (R450million for TFR) then the FEL study irrespective of its stage requires approval from Group CAPIC. Please refer to the Accounting Policy for Conceptual, Pre-feasibility and Feasibility Studies when capitalising FEL studies.
- Approvals exceeding R2billion but less than R5.2billion in ETC are to be reported to the Shareholder Minister

### 5.1.2 Unforeseen CAPEX (not included in budget/Corporate Plan)

| Approval Authority → | OD Exco/CE excluding TFR | TFR Exco/CE | CAPIC/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board | Shareholder Minister |
|---|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R50million | Up to but not exceeding R75million | Up to but not exceeding R400million | Up to but not exceeding R800million | Up to but not exceeding R1billion | Up to but not exceeding R5.2billion | Exceeding R5.2billion |
| Approval Authority → | Group Exco Member | GE: Transnet Property | CAPIC/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board | Shareholder Minister |
| Specialist Units | Up to but not exceeding R20million | Up to but not exceeding R50million | Up to but not exceeding R400million | Up to but not exceeding R800million | Up to but not exceeding R1billion | Up to but not exceeding R5.2billion | Exceeding R5.2billion |

Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- All unforeseen Capex approved by Operating Divisions/Specialist Units within their delegated authority, must be reported on a quarterly basis to Group Financial Planning.
- Amounts indicated above exclude the capitalisation of borrowing costs.
- All ICT projects requiring Transnet approval must be signed off by the Group Executive: Enterprise Information Management Services
- Approval limits are per project at Operating Divisional level and Transnet Property level subject to an aggregate divisional limit of R250million per annum (for ODs and Transnet Property) and R450million for TFR on condition that divisions remain within their annual approved capital budget (refer to 5.1.3.1).
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to Transnet if the respective OD limits are reached.
- If an unforeseen project will result in the divisional 7 year investment plan being increased then Group Exco needs to be approached for approval.

### 5.1.3 Increase in Estimated Total Cost (ETC) of Existing/Approved Projects

| Approval Authority → | OD Exco/CE excluding TFR | TFR Exco/CE | CAPIC/GCFO | Group Exco/ GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|---|
| Operating Divisions | ETC may be increased to a maximum of R250million, increases beyond this amount may only be approved at Transnet Level | ETC may be increased to a maximum of R450million, increases beyond this amount may only be approved at Transnet Level | ETC may be increased to a maximum of R800million | ETC may be increased to a maximum of R1.2billion. | ETC may be increased to a maximum of R2billion | Exceeding R2billion |
| Approval Authority → | Group Exco Member | GE: Transnet Property | CAPIC/GCFO | Group Exco/ GCE | Acquisitions and Disposals Committee | Board |
| Specialist Units | ETC may be increased to a maximum of R20million, increases beyond | ETC may be increased to a maximum of R50million, increases beyond this amount may only be approved at Transnet Level | | ETC may be increased to a maximum of R1.2billion | ETC may be increased to a maximum of R2billion. | Exceeding R2billion |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| • | i n c | this amount may only be approved at Transnet Level | | | | | |

rease in ETC of projects already approved by the Shareholder Minister must be reported to the Shareholder Minister if the increase is in excess of 15%.

- All ICT projects requiring approval must be signed off by the GE: EIMS.
- All cost increases in excess of 25% of the approved budget for a project must be reported to Transnet CAPIC/GCFO.
- Amounts indicated above exclude the capitalisation of borrowing costs. Increases in ETC of a project solely due to the capitalisation of borrowing costs may be approved by the OD Exco/CE. Project costs and capitalisation of borrowing costs are to be managed separately and may not be expended on projects interchangeably.
- Increases in ETC of a project that results in the project exceeding a specific committee's approval limit needs to be submitted to the next approval body. If CAPIC approved a project at ETC of R700million, and the increase required is R200million then the final approval body for the increase will be Group Exco as the new ETC of R900million is beyond CAPIC's limit.
- Requests for increases in ETC need to be submitted to the approval body that originally approved the project. If Board approved a project to the value of R2.1billion, any increases to this project will require Board approval.

5.1.3.1 Any increase in excess of the annual approved capital investment budget must be submitted to CAPIC/GCFO for approval. Where the GCFO has approved an increase, the submission should be tabled at the subsequent CAPIC meeting for information purposes.

**5.1.4 Approval of Front-End Loading (FEL) Studies**

Front end loading (FEL) studies are to be submitted to CAPIC based on the value of the underlying asset on which the study is conducted e.g. If the FEL study is for an asset that exceeds R250million (R450million for TFR) then the FEL study irrespective of its stage requires approval from Group CAPIC . The following limits apply in instances of the FEL study itself.

| **Approval Authority →** | **OD Exco/CE excluding TFR** | **TFR Exco/CE** | **Capic/GCFO** | **Group Exco/GCE** | **Acquisitions and Disposals Committee** | **Board** |
|---|---|---|---|---|---|---|
| Operating Divisions | FEL studies conducted on assets not exceeding R250 million | FEL studies conducted on assets not exceeding R450 million | Up to but not exceeding R800million | Up to but not exceeding R1.2billion | Up to but not exceeding R2billion | Exceeding R2billion |
| **Approval Authority →** | **Group Exco Member** | **GE: Transnet Property** | **Capic/GCFO** | **Group Exco/ GCE** | **Acquisitions and Disposals Committee** | **Board** |
| Specialist Units | FEL studies conducted on assets not exceeding R20 million | FEL studies conducted on assets not exceeding R50 million | Up to but not exceeding R800million | Up to but not exceeding R1.2billion | Up to but not exceeding R2billion | Exceeding R2billion |

- Limits are per FEL study
- The study to be managed along the same principles as a project
- FEL studies to be managed and controlled by an appointed project manager to ensure efficient utilisation of Transnet resources.

**5.1.5 Matters pertaining to the Scope of a Project**

**Schedule:**

- Project timelines may not exceed the end date contained in the business case by more than 12 months with no cost increases
- Approval to be sought from the original approval body at the earliest discovery that the 12 month limit is going to be exceeded.

**Physical progress:**

- Scope changes of more than 10% of the original scope requires approval from the original approval body.
- Funds allocated for future scope items may NOT be utilised to fund current items that have depleted their budgets and contingencies provided specifically for the item.

**5.1.6 Asset Write-off/Scrapping: Movable Assets**

| **Approval Authority →** | **OD Exco/CE excluding TFR** | **TFR Exco/CE** | **Capic/GCFO** | **Group Exco/GCE** | **Acquisitions and Disposals Committee** | **Board** |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R50million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R700million | Exceeding R700million |

| Approval Authority → | Group Exco Member | Capic/GCFO | Group Exco/ GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|
| Specialist Units | Up to but not exceeding R5million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R700million | Exceeding R700million |

Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded then the Board has to consider and recommend to Shareholder Minister for approval.

- The above amounts refer to net book value and pertains to the cost actually paid for the asset (revaluations are excluded) and are a cumulative annual limit. Write-offs below R10m and above R50m in the case of TFR must be reported to CAPIC/GCFO quarterly.
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to Transnet if the respective OD limits are reached.

### 5.1.7 Asset write-off/Scrapping/Demolition of Immovable Assets (excluding land) e.g. buildings, structures

| Approval Authority → | OD Exco/CE excluding TFR | TFR Exco/CE | Capic/GCFO | Group Exco/ GCE | Acquisitions and Disposals Committee | Board* |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R50million | Up to but not exceeding R150million | Up to but not exceeding R250million | Up to but not exceeding R300million | Exceeding R300million |
| Approval Authority → | Group Exco Member | | Capic/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board* |
| Specialist Units | Up to but not exceeding R5million | | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R300million | Exceeding R300million |

*Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- The above amounts refer to an estimated market value at that point in time and are a cumulative annual limit.
- Divisional investment committees are to monitor the limits pertaining to the respective OD and to escalate submissions to CAPIC if the respective OD limits are reached.
- Write-offs below R10million and below R50million in the case of TFR must be reported to CAPIC/GCFO quarterly.

### 5.1.8 Disposal of Movable Assets (excluding sale of scrap)

| Approval Authority → | OD Exco/CE* | Capic/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board** |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R50million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R700million | Exceeding R700million |
| Approval Authority → | Group Exco Member | Capic/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board** |
| Specialist Units | Up to but not exceeding R5million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R700million | Exceeding R700million |

The above amounts refer to an estimated market value and are subject to a cumulative annual limit of R200million. For sale of scrap please refer to 5.5.1.

- Divisional investment committees are to monitor limits pertaining to their OD, and to escalate submissions to CAPIC once the respective OD limits are reached.

**Refer to Materiality and Significance Framework. If the set limit (currently R5.2billion) is exceeded, then the Board need to consider and recommend to the Shareholder Minister for approval.

### 5.1.9 Management's intervention in addressing non-compliance with regard to the approval of capital projects

| Approval Authority → | OD CE:OD | GCFO | GCE |
|---|---|---|---|
| Operating Divisions | Nil | Nil | Unlimited |
| Approval Authority → | Group Exco Member | GCFO | GCE |
| Specialist Units | Nil | Nil | Unlimited |

- Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.
- If the approval of non-compliance results in the annual divisional budget being exceeded, then the request must be submitted to CAPIC for approval (refer to 5.1.3.1).

5.1.10 **Alienation/acquisition of immovable property (land and servitudes)**

| Approval Authority → | OD Exco/CE excluding TFR | TFR Exco/CE | Capic/GCFO | Group Exco/GCE | Acquisitions and Disposals Committee | Board** |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R50million | Up to but not exceeding R200million | Up to but not exceeding R350million | Up to but not exceeding R500million | Exceeding R500million |
| **Approval Authority →** | **Group Exco Member** | **GE: Transnet Property** | **Capic/GCFO** | **Group Exco/GCE** | **Acquisitions and Disposals Committee** | **Board**** |
| Specialist Units | Up to but not exceeding R1million | Up to but not exceeding R10million | Up to but not exceeding R200million | Up to but not exceeding R350million | Up to but not exceeding R500million | Exceeding R500million |

**Refer to Materiality and Significance Framework. If the set limit (R5.2billion) is exceeded then the Board need to consider and recommend to the Shareholder Minister for approval.

- Approval limits are per transaction and are with reference to market value
- All transactions entered into in terms of the above must be reported to CAPIC/GCFO
- Only immovable property on the non-core list, may be disposed of (refer to 5.1.8.1), such disposal may only be done through the Transnet Property.
- Amounts indicated above exclude the capitalisation of borrowing costs.

5.1.10.1 **Newly identified properties to be included on the non-core list (Book value of individual properties)**

| GE: Transnet Property | GCFO | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|
| Up to but not exceeding R50million | Up to but not exceeding R100million* | Up to but not exceeding R200million | Up to but not exceeding R300million | Exceeding R300million |

These disposals must be reported to Capic//Group Exco/Acquisitions and Disposals Committee/ Board.

5.2 **Treasury**

**Treasury Policies**

| Approval Authority → | Group Treasurer | GCFO | GCE | Risk | Audit Committee | Board |
|---|---|---|---|---|---|---|
| Financial Risk Management Framework | Recommend | Recommend | Recommend | Noting | Recommend | Approve |

**NOTE 1:** Only approved financial instruments as approved in terms of the applicable Treasury Financial Risk Management Framework approved by the Board and subject to such limits determined in accordance with such framework may be utilised in the Treasury operations.

5.2.1 **InterTransnet Debt (Treasury inter Transnet debt write-off)**

| Approval Authority → | Deputy Treasurer: Operations | Group Treasurer | GCFO | GCE |
|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R5million | Up to but not exceeding R10million | Up to but not exceeding R20million | Exceeding R20million |
| Specialist Units | Up to but not exceeding R2million | Up to but not exceeding R10million | Up to but not exceeding R20million | Exceeding R20million |

All breaches of the above limits to be reported to the Audit Committee.
External debt write-off on financial instruments due to counter-party liquidation may only be approved by the GCE.

5.2.2 **Maximum annual loss on all repo activities (Realised and unrealised)**

| Approval Authority → | Traders and Chief Trader | Deputy Treasurer: Front Office | Group Treasurer | GCFO | GCE |
|---|---|---|---|---|---|
| Group | Up to but not exceeding R1million | Up to but not exceeding R1.5million | Up to but not exceeding R2.5million | Up to but not exceeding R5million | Exceeding R5million |

All breaches of the above limits to be reported to the Audit Committee
Note: The above limits are aggregate desk limits

5.2.3 **Buy and sell back and sell and buyback transactions (Expressed in nominal terms)**

| Approval Authority → | Traders | Chief Trader | Deputy Treasurer: Front Office | Group Treasurer | GCFO |
|---|---|---|---|---|---|
| Group | Up to but not exceeding R250million | Up to but not exceeding R500million | Up to but not exceeding R750million | Up to but not exceeding R1 billion | Exceeding R1 billion |
| Duration Limit | 2 weeks | 3 weeks | 1 month | 1 month | > 1 month |

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.
Approval limits are per transaction/event.

5.2.4 **Foreign Exchange Spot Transactions Operational payments, not related to hedging, early take ups or extensions (expressed in USD equivalent)**

| Approval Authority → | Traders | Chief Trader | Deputy Treasurer: Front Office | Group Treasurer | GCFO |
|---|---|---|---|---|---|
| Group | Up to but not exceeding an aggregate equivalent of $20millionper day (desk total) | Up to but not exceeding an aggregate equivalent of $40million per day (desk total) | Up to but not exceeding an aggregate equivalent of $100million per day (desk total) | Up to but not exceeding an aggregate of $250million per day (desk total) | Exceeding a daily equivalent of $250million (desk total) |

All breaches of the above limits to be reported to the Audit Committee.

5.2.5 **Foreign Exchange Hedging Transactions New hedges or re-alignment of existing hedges (expressed in USD equivalent)**

| Approval Authority → | Deputy Treasurer Middle Office | Group Treasurer | GCFO |
|---|---|---|---|
| Group | Submissions not exceeding $10million | Submissions not exceeding $100million | Submissions exceeding $100million |
| Tenure | Not exceeding 18 Months | Not exceeding 3 years | Exceeding 3 years |

All breaches of the above limits (amount or tenure) to be reported to the Audit Committee.

5.2.6 **Foreign Exchange Hedging Transactions: Extensions, early take ups (expressed in USD equivalent)**

| Approval Authority → | Traders | Chief Trader | Deputy Treasurer: Front Office | Group Treasurer |
|---|---|---|---|---|
| Group | Not exceeding an aggregate equivalent of $20million per day (desk total) | Not exceeding an aggregate equivalent of $50million per day (desk total) | Not exceeding an aggregate equivalent of $100million per day (desk total) | Exceeding an aggregate of $100million per day (desk total) |

All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on foreign exchange rate risk will apply.

5.2.7 **Approval of FX hedges to be hedged by external suppliers on their balance sheet for goods/services to be delivered to Transnet in respect of Rand agreements involving foreign content**

| Approval Authority → | Traders | Chief Trader | Deputy Treasurer: Front Office | Group Treasurer |
|---|---|---|---|---|
| Group | Not exceeding $10million | Not exceeding $25million | Not exceeding $100million | Exceeding $100million |

All breaches of the above limits to be reported to the Audit Committee for noting.
The above limits are applicable per agreement.
Note: The Business Units must always obtain quotes on FX forward rates and liaise with the Treasury Trading desk that will verify the rates to ensure it is market related. The Business Units can only enter into the FX hedges with the supplier once the rates are accepted by the Treasury Trading desk via e mail. Once the above approvals are obtained, the Treasury Traders will provide sign off on the rate acceptance.

5.2.8 **Interest Rate Risk Hedging**

| Approval Authority → | Notional Amounts | Group Treasurer | GCFO |
|---|---|---|---|
| Group | Notional amount of hedge expressed in RAND or equivalent in USD (FX loans and leases) | Up to but not exceeding R1billion or equivalent in USD | Exceeding R1billion or equivalent in USD |
| Tenure | | Not exceeding 5 years | Exceeding 5 years |

All breaches of the above limits to be reported to the Audit Committee.
Note: Where no specific limit is mentioned, the FRMF policy on interest rate risk will apply.
The above limits are applicable per hedging submission.

**5.2.9 Hedging of fuel risk exposures (RAND and USD)**

| Approval Authority → | Group Treasurer | GCFO |
|---|---|---|
| Tenure | Not exceeding 6 months | Not exceeding 18 months |
| Notional hedge expressed in USD or equivalent in RAND | Not exceeding $50million or equivalent in RAND | Exceeding $50million or equivalent in RAND |

All breaches of the above limits to be reported to the Audit Committee.
Note: The maximum hedge should not exceed 75% of annual budgeted consumption.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity (fuel) risk will apply.

**5.2.10 Hedging of commodity risk exposures in supply agreements, including escalation (other than fuel) in FX or RAND**

| Approval Authority → | Group Treasurer | GCFO |
|---|---|---|
| Tenure | Not exceeding 24 months | Exceeding 24 months |
| Notional hedge expressed in RAND | Not exceeding R100million | Exceeding R100million |
| Notional hedge expressed in USD | Not exceeding $10million | Exceeding $10million |

All breaches of the above limits to be reported to the Audit Committee.
The above limits are applicable per hedging submission.
Note: Where no specific limit is mentioned, the FRMF policy on commodity risk will apply.

**5.2.11 Granting of InterTransnet Loans (Interest-bearing only) to divisions/specialist units**

| Approval Authority → | Deputy Treasurer: Front Office | Group Treasurer | GCFO |
|---|---|---|---|
| Operating Division | Up to but not exceeding R750million | Up to but not exceeding R1 billion | Exceeding R1 billion |
| Specialist Unit | Up to but not exceeding R10million | Up to but not exceeding R25million | Exceeding R25million |

These above limits are cumulative per OD/ SU per financial year.

**5.2.12 Letters of Credit**

| Approval Authority → | Deputy Treasurer: Front Office | Group Treasurer | GCFO | |
|---|---|---|---|---|
| Transnet | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500million | |

All breaches of the above limits to be reported to the Audit Committee.
The above limits are per Letter of Credit.

**Funding Portfolio**

**NOTE 1:** The total nominal funding amount per financial year in respect of Bonds and any other funding transactions shall be as determined per Board approved/Board amended Funding/Borrowing Plan.

**NOTE 2:** A. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, the Group Treasurer and any other officer so designated in writing by the GCFO.

B. Signatories mean, subject to such approvals by the Board and the Minister of Finance in terms of section 66 of the PFMA as may be applicable, persons so designated in writing by the Group Treasurer.

**5.2.13 Limits for approval and signing of funding agreements per financial year**

| Approval Authority → | Group Treasurer | GCFO | GCE |
|---|---|---|---|
| Tapping of bonds (in accordance with the approved Funding Plan or as approved by the Board) | - | Not exceeding R5billion | Exceeding R5billion |
| Bank facilities | | No limit applies | No limit applies |
| Drawdown on Overnight facilities including Revolving Credit Facilities ** | Up to but not exceeding R3billion | Exceeding R3billion | Exceeding R3billion |
| | | | |
| Commercial Paper | | | |
| | | | |
| Loans | - | Not exceeding R5billion | Exceeding R5billion |
| | Up to but not exceeding R1billion | Up to but not exceeding R2.5billion | Exceeding R2.5billion |

| | | | |
|---|---|---|---|
| Export Credit Agency supported funding | | | |
| Up to but not exceeding R1billion | | | |
| New domestic bond issues (in accordance with the approved Funding Plan or as approved by the Board) | | Up to but not exceeding R2billion | Exceeding R2billion |
| Development Finance Institution Funding | Up to but not exceeding R1billion | Up to but not exceeding R2.5billion | Exceeding R2.5billion |
| Foreign funding | Up to but not exceeding $100million | Up to but not exceeding $250million | Exceeding $250million |
| Any other source of funding not stipulated above | Up to but not exceeding R1billion | Up to but not exceeding R2billion | Exceeding R2billion |
| The above is further subjected to the following annual aggregate limit | | | |
| | R5billion | R12.5billion | Limited to the annual Board approved funding plan |

The above is subject to the following:

- Be executed in accordance with the approved funding strategy as incorporated in the Corporate Plan (including any approved amendments).
- All breaches of the above limits to be reported to the Audit Committee.
- The GCE can increase funding requirements up to 10% of Board approved Borrowing Plan and this needs to be ratified by Board. Any funding increase above the 10% can only be approved by the Board.
- Any increase in the funding requirement beyond what was included in Corporate Plan is to be notified to the Shareholder and the Ministry of Finance.
- * Bank facilities must be approved and signed by either the GCFO or GCE.
- ** Applicable on outstanding balances.
- The Group Treasurer must sign all Funding Agreements within their delegated authority limits, together with the GCFO signing as co-signatory
- The Group Treasurer can approve all drawdowns and sign any ancillary transaction related documentation required from time to time irrespective of the amounts involved.
- Pricing Supplements for new listings, existing bonds and commercial paper to be listed on any exchanges must be signed by the GCFO and GCE.
- Final Terms for new listings on international exchanges must be signed by the GCFO and GCE.
- The Group Treasurer is authorised to sign all ancillary documents related to listings in local and international exchanges.

**5.2.14 Signing of legally binding agreements in respect of Treasury related activities not listed in 5.2.13 above. (Such as ISDA, ISMA, JSE client agreements, data subscription agreements)**

| |
|---|
| Only the GCE or the GCFO have authority to sign. The Group Treasurer may sign with a specified delegation of authority. |

**5.2.15 Counterparty Limits: Setting of Limits**

| Approval Level | | | |
|---|---|---|---|
| Group Treasurer | GCFO | GCE | Audit Committee |
| Price Risk Limits $\leq$ R25m[3] | Price Risk Limits $\leq$ R250million[3] | Price Risk Limits $\geq$ R250million[3] | Counter Party Risk Limits[1]<br>Overall counterparty limit (as calculated in line with FRMF) |
| Recommendation of Bond Issue and Bond Issuer Limits | Approval of Bond Issue and Bond Issuer Limits | | |
| Recommendation of Settlement Limits[2] | Approval of Settlement Limits[2] | | |
| Recommendation of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3] | Approval of limits where the Company is exposed to counterparty issuer risk as a result of advance payment guarantees, performance bonds, retention bonds etc. issued under supplier agreement/contracts[3] | | |

Note: Where no specific limit is mentioned, the FRMF policy on Counter Party Risk will apply.

Note[1]: The approved counterparty limit may be utilised for price risk, investment risk as well as issuer risk (in respect of advance payment guarantees, performance bonds, retention bonds etc.) as long as the sum of the individual exposures remains within the overall Audit Committee approved risk limit.

Note[2]: Settlement risk limits are set at 1.5 times the approved counterparty limit as stipulated in the FRMF and will be approved with the counterparty limit.

Note[3]: In respect of counterparties not approved by Audit Committee

5.2.16 **Appointment of Commercial Bankers and the Opening of Bank Accounts**

| | Group Treasurer | GCFO |
|---|---|---|
| All OD/SU | Recommendation to open bank accounts and the appointment of bankers. | Approval of new bank accounts and the appointment of bankers and the approval of all documentation relating to such accounts, including electronic banking documentation. |
| Process to follow | There is no delegation to any OD/SU to appoint commercial bankers or to open bank accounts, domestically or internationally; only the GCFO may make such appointments. | |

5.2.17 **Authorisation of cheque signatories, Test keys and EFT's**

| | |
|---|---|
| Signing Cheques | Two A signatories or one A and one B signatory |
| Signing Test keys for paying/receiving | Two A signatories or one A and one B signatory |
| Electronic transfer of funds | Two A signatories or one A and one B signatory |

5.2.18 **Payment instructions and confirmation notes**

| | |
|---|---|
| Signing payment instructions/ receipts/ settlement instructions: | Two A signatories or one A and one B signatory |
| Signing confirmation notes in respect of approved financial transactions executed: | One A signatory |

5.2.19 **Approval of Annual Borrowing Plan**

| | Board |
|---|---|
| Companywide | Approve the annual Borrowing Plan for execution by Treasury |

Annual Borrowing Plan to be recommended by the Audit Committee for approval by the Board.

5.2.20 **Authorisation to enter into binding transactions**

| | Group Treasurer |
|---|---|
| Companywide | Authorise Treasury employees to enter into binding financial transactions on behalf of Transnet |

5.2.21 **Issuing of Guarantees (subject to requirements of section 66 of the PFMA)**

| | Group Treasurer | GCFO | GCE | Board |
|---|---|---|---|---|
| Companywide | Up to but not exceeding 25million | Up to but not exceeding R200million | Up to but not exceeding R500million | Exceeding R500million |

All breaches of the above limits to be reported to the Audit Committee.
The Limits are per transaction.

5.2.22 **Issuing Letters of Support**

| | Board |
|---|---|
| Companywide | Only the Board of Directors has authority to issue letters of support |

5.2.23 **Issuing of security per transaction (subject to section 66 of the PFMA)**

| | Group Treasurer | GCFO | GCE | Board |
|---|---|---|---|---|
| Companywide | Up to but not exceeding R250million | Up to but not exceeding R500million | Up to but not exceeding R1 billion | Exceeding R1billion |

All breaches of the above limits to be reported to the Audit Committee. The limits are per transaction.

5.2.24 **Guarantees resulting from Supplier Agreements**

| | CFO:OD | Deputy Treasurer Middle Office[1] | Group Treasurer[2] | Group CFO[3] |
|---|---|---|---|---|
| Notional Value per OD per financial year | Up to but not exceeding R200million | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500million |
| Issuer Acceptance | | All issuers | All issuers | All issuers |

- The limits are cumulative per OD/SU per annum.
- The OD is required to obtain legal acceptance from the Divisional Legal Department and or Group Legal in respect of all Guarantees.
- Guarantees should be constructed in a manner that they become payable on demand
- The minimum long-term credit rating requirements may be acceptable under the following:-
  - A- from Fitch Rating Investor Services or Standard & Poor's Rating Services or A3 from Moody's Investor Services;
  - Issuers not rated by a recognised credit rating agency will not be accepted, unless specific approval has been obtained from GCFO that internally developed credit rating of the Issuer is acceptable;

- Group Treasury may also consider an equivalent rating from other recognised rating agencies as contained in the FRMF.

Note: The approvals of [123] are additional and do not include the amount of lower level authority.

## 5.3 Finance

### 5.3.1 Bad Debt Write-off

**Trade Debtors**

| Approval Authority → | OD Exco/CE* excluding TFR | TFR Exco/CE | GCFO | Group Exco/ GCE | Audit Committee | Board** |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R20million | Up to but not exceeding R100 million | Up to but not exceeding R250 million | Up to but not exceeding R500million | Exceeding R500 million |
| Approval Authority → | Group Exco Member | | Capic/GCFO | Group Exco/ GCE | Audit Committee | Board |
| Specialist Units | Up to but not exceeding R5 million | | Up to but not exceeding R100 million | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500 million |

**Approval limits are R10million and R20million for TFR per transaction subject to an annual cumulative limit of R50 million and R100m for TFR. Specialist Unit limit is R5million cumulative per annum.

### 5.3.2 Setting of limits for credit facilities (Trade debtors)

| Approval Authority → | Divisional CFO excluding TFR | OD Exco/CE* excluding TFR | TFR CFO | TFR CE | GCFO | GCE |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10 million | Up to but not exceeding R20 million | Up to but not exceeding R100 million | Up to but not exceeding R150million | Up to but not exceeding R300 million | Exceeding R300million |
| Specialist Units | Up to but not exceeding R5 million | Up to but not exceeding R10 million | n/a | n/a | Up to but not exceeding R300 million | Exceeding R300million |

Limits are per individual customer/client. Credit limits are to be reviewed on an annual basis. The limits are applicable subject to the division following the credit evaluation process.
Internal limits between ODs are not applicable.

### 5.3.3 Issuing of Credit notes

| Approval Authority → | Divisional CFO | OD Exco * | GCFO | GCE |
|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R20million | Up to but not exceeding R300million | Exceeding R300million |
| Specialist Units | Up to but not exceeding R5million | Up to but not exceeding R10million | Up to but not exceeding R300million | Exceeding R300million |

Limits are per individual credit note and relates to external parties. Issuing of credit notes regarding internal/interdivisional transactions must be within the control of the divisional CFOs.
Excludes the product reconciliation process at Transnet Pipelines where the Divisional CFO or General Manager: Strategy and Commercial recommend to the OD CE the approval of transactions arising out of the product reconciliation process.

### 5.3.4 Exceeding the operational expenditure budget in total for the year (Operating Divisions/Specialist Units)

The Board of Directors to be informed at every meeting of the financial status and latest estimates of the Company

| Approval Authority → | CE:OD * | GCFO | GCE | Board |
|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding 5% of approved budget | Up to but not exceeding 7.5% of approved budget | Exceeding 7.5% of approved budget to a maximum of 10% | >10% |
| Specialist Units | Up to but not exceeding 5% of approved budget | Up to but not exceeding 7.5% of approved budget | Exceeding 7.5% of approved budget to a maximum of 10% | > 10% |

* To be reported quarterly to the GCFO and GCE together with mitigating action plans to ensure that key financial metrics are maintained or met.

Delegations for operational transactions that are too detailed to include in the Delegations of Authority Framework will be determined and applied in terms of the details set out by the CE/GE in conjunction with the CFO of the respective OD/SU.

5.3.5 **Establishing financial policy with regard to insurance**

| Approval Authority → | GCFO | Risk Committee |
|---|---|---|
| Authority Level | GCFO after consulting with Chief Risk Officer to recommend to the Risk Committee | Final approval |

5.3.6 **Inventory Write-off**

| Approval Authority → | OD Exco/CE* excluding TFR | TFR Exco/CE | GCFO | Group Exco/ GCE | Audit Committee | Board |
|---|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R10million | Up to but not exceeding R20million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500million |
| Approval Authority → | Group Exco Member | | CAPIC/GCFO | Group Exco/ GCE | Audit Committee | Board |
| Specialist Units | Up to but not exceedingR5million | | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500million |

* Approval limits are R10million and R20million for TFR per transaction, subject to an annual cumulative limit of R50million and R100million for TFR. Specialist Unit limit is R5million cumulative per annum.

5.4 **Procurement, Enterprise Development and Supplier Development**

All procurement transactions (including reverse logistics – selling of goods) must fully comply with the approved Supply Chain Policy and Procurement Procedures Manual (PPM),) where applicable – Any commercial agreement (for the purchase of goods or services) must be signed off by an authorised employee of Supply Chain Management (Procurement) prior to signing of the contract to indicate that all the steps as per Clause 5.5 below have been followed and that all procurement related governance has been adhered to. In addition to the other exclusions specifically mentioned in the PPM, Treasury transactions related specifically to the appointment of service providers for Transnet's funding and hedging requirements are not subject to the PPM.

5.4.1 **Appointment of Consultants**

| Approval Authority → | CE:OD and GE:TCP | GCFO | Group Exco/ GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|
| Operating Divisions including TCP | Up to but not exceeding R25million | Up to but not exceeding R50million | Up to but not exceeding R200million | Up to but not exceeding R300million | Exceeding R300million |
| Approval Authority → | Specialist Unit GE (i.e. Foundation & Property) Group Exco Members | GCFO | GCE | Acquisitions and Disposals Committee | Board |
| Specialist Units excluding TCP | R10million | Up to but not exceeding R50million | Up to but not exceeding R200million | Up to but not exceeding R300million | Exceeding R300million |

*Approval limits are cumulative per annum. Excludes appointment of consultants to perform feasibility studies for capital projects.

- Consultants may only be remunerated at set rates as follows:
  - Guideline for fees as determined by the South African Institute of Chartered Accountants.
  - Guide on Hourly Fee Rates for Consultants by the Department of Public Service and Administration.
  - Prescribed by the body regulating the profession of the consultant (for this purpose the *Guideline on Cost Containment Measures issued in terms of National Treasury's Instruction Note 01 of 2013/14* must be followed).

Prescribed in the Service Level Agreement concluded with lawyers on the Transnet legal panel.

5.4.2 **Approval to approach the market for Open Tenders**

| Approval Authority → | CE:OD and GE:TCP | GCSCO | GCFO | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|---|
| Operating Divisions including TCP | Up to but not exceeding R700million | Up to but not exceeding R750million | Up to but not exceeding R1billion | Up to but not exceeding R1.5billion | Up to but not exceeding R2 5billion | Exceeding R2. 5billion |
| Approval Authority → | Specialist Unit(i.e. Foundation and Property Group Exco Members | | | | | |
| Specialist Units excluding TCP | GE Up to but not exceeding R100million | Up to but not exceeding R750million | Up to but not exceeding R1billion | Up to but not exceeding R1.5billion | Up to but not exceeding R2.5billion | Exceeding R2.5billion |

The CE: OD may only delegate these powers to go to market with Open Tenders to Heads of Procurement. The Requisition (or Request to Purchase) issued to Procurement must be approved by the OD's Budget Owner or GE in the case of Specialist Units or his duly authorised delegate. Such approved requisition or Request to Purchase will signify that the acquisition has been approved and that the necessary funds are available.

Submissions requiring approval by the person with delegated authority must also include a procurement strategy document which includes Supplier Development.

**5.4.3 Approval to approach the market for confined tenders: Confinement of tenders (applicable to transactions above R2m in value)**

| Approval Authority → | CE:OD and GE:TCP | GCSCO | | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|---|
| Operating Divisions including TCP | Nil | Nil | | Up to but not exceeding R500m | Up to but not exceeding R1.5billion | Exceeding R1.5billion |
| Approval Authority → | Specialist Unit GE (i.e. Foundation & Property) Group Exco Members | GCSCO | | GCE | Acquisitions and Disposals Committee | Board |
| Specialist Units excluding TCP | Nil | Nil | | Up to but not exceeding R500m | Up to but not exceeding R1.5billion | Exceeding R1.5 billion |

The limits are per transaction/confinement. All requests for approval of confinements must be made by the CE:OD /Group Exco Member through the GCSCO and the GCFO to the GCE. The OD/SU shall prepare the submission in collaboration with integrated Supply Chain Management (iSCM) to ensure that the motivation for confinement contains sufficient information to meet one or more of the grounds for confinement as stipulated in the PPM. In instances where a confinement is confidential, the GCE may approve such confinement without the confinement request being routed through any other authority.

**Note:** Confinement must only be used in respect of transactions above R2million in value. For transactions below R2million, the quotation system must be used. The quotation system is a procurement mechanism that may only be used:

- For transactions below R2million in value that.
- Relates to goods or services required on a non-repetitive basis.
- Market is known.
- Minimum of 3 quotes must be obtained where applicable (greater than R100 000 but less than R2million).

**5.4.4. Management's intervention to address non-compliance with procurement policies and procedures**

| Approval Authority → | CE:OD/and GE:TCP | GCFO | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|
| Operating Divisions including TCP | Nil | Nil | Up to but not exceeding R500million | Up to but not exceeding R1.5billion | Exceeding R1.5billion |
| Approval Authority → | Specialist Unit GE (i.e. Foundation & Property) Group Exco Members | GCFO | GCE | Acquisitions and Disposals Committee | Board |
| SU excluding TCP | Nil | Nil | Up to but not exceeding R500million | Up to but not exceeding R1.5billion | Exceeding R1.5billion |

Note: All requests for approval of non-compliance must be made by the CE: OD/Group Exco member to the GCE. The OD/SU shall prepare the submission in collaboration with iSCM to ensure that the rules for the addressing of non-compliance are met. Together with the application for approval of non-compliance, the requestor must advise on the steps/corrective measures taken to avoid a repeat of the transgression within 30 days of the transgression being discovered.

**5.4.5 Establishing Procurement policy (opex, capex and disposals)**

| | |
|---|---|
| Authority Level | Acquisitions and Disposals Committee |

**5.4.6 Procurement process approval**

**NOTE:** Each OD/SU will have its own main Acquisition Council (AC) which will consider and approve all procurement processes, as well as the disposal of scrap, falling within its jurisdiction from R2million, but not exceeding R700million. This is subject to the discretion of the CE: OD/GE: SU to lower the R2million thresholds, or to create Secondary Regional/Local Acquisition Councils. Where a particular Transnet Entity chooses to create a secondary AC/s, the jurisdiction of the Secondary AC/s will start below the R2 million threshold. ODs have the discretion to set the maximum threshold/s of such secondary ACs to a value higher than R2 million. This value will then become the minimum threshold of the main AC of the Transnet Entity. The CE: OD/GE: SU may also delegate certain process approval powers to the relevant Manager for matters below the Secondary Acquisition Councils' delegation. Transactions exceeding the CE: OD's/GE: SU's delegated authority will also be considered by the OD's main AC for recommendation to the higher approval body (e.g. the Acquisitions and Disposal Committee). If it concurs with the recommendation, the matter will be referred to the relevant person/structure with the delegation of authority for approval. Should any process approval body not agree with the recommendation, the matter must be referred back to the recommending officer(s) for reconsideration or re-motivation.

| Approval Authority → | ODs, TCP and TCC (Secondary and/or Main) Acquisition Councils | GCSCO | GCFO | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|---|
| Operating Divisions (including TCP and TCC) | Up to but not exceeding R700million | Up to but not exceeding R750million | Up to but not exceeding R1billion | Up to but not exceeding R1.5billion | Up to but not exceeding R2.5billion | Exceeding R2.5 billion |
| Approval Authority | Specialist Unit (excluding TCP and TCC)(Secondary and/or Main) Acquisition Councils | GCSCO | GCFO | GCE | Acquisitions and Disposals Committee | Board |
| Specialist Units (excluding TCP and TCC) | Up to but not exceeding R20million subject to the contract period not exceeding 5 years | Up to but not exceeding R750 million | Up to but not exceeding R1billion | Up to but not exceeding R1.5 billion | Up to but not exceeding R2.5 billion | Exceeding R2.5 billion |

5.4.7 Enterprise and Supplier Development

| Approval Authority → | CE:OD | iSCM Council/ GCSCO | GCFO | Group EXCO/ GCE | Acquisitions and Disposals Committee | Board* |
|---|---|---|---|---|---|---|
| Operating Divisions (including TCP and TCC) | Up to but not exceeding R5m | Up to but not exceeding R25million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R500million | Exceeding R500million |
| Approval Authority | Specialist Unit GE (i.e. Foundation & Property) Group Exco Members | iSCM Council/ GCSCO | GCFO | Group EXCO/ GCE | Acquisitions and Disposals Committee | Board |
| Specialist Units (excluding TCP and TCC) | Up to but not exceeding R2million | Up to but not exceeding R25million | Up to but not exceeding R100million | Up to but not exceeding R250million | Up to but not exceeding R500million | Any amount exceeding R500million |

The abovementioned delegations are per transaction.
*RemSEC to note all Enterprise and Supplier Development transactions.

5.5 **Contracts and/or Agreements**

**NOTE 1:** Any person who has been authorised to execute any legal documents including deeds, leases, assignments, contracts, applications, financial instruments, external submissions to or on behalf of the Company and/or its OD's or SU's or any other legal documents may only do so with the prior advice of the relevant Legal Services department as set out in the Legal Policy.

**NOTE 2:** Unless otherwise indicated in the authorities below, the authority to execute a contract or other binding document carries with it like authority to cancel or modify it, but only with the prior written advice of the relevant Legal Services department as set out in the Legal Policy and if it relates to Procurement Contracts, the process prescribed in the Procurement Procedures Manual must be adhered to.

**NOTE 3:** Any person authorised to enter into an agreement/contract or other binding document involving capital expenditure must have obtained prior financial approval in terms of the procedures set out in 5.1 prior to entering into such a CAPEX contract.

**NOTE 4:** Approval limits are per transaction/contract.

**NOTE 5:** The authority to execute a contract or other binding document carries with it the understanding that an authorised payment required thereby will be made once proof of receipt has been obtained. No person is authorised to obligate the company to an amount greater than such payment or create more onerous obligations than those contained in the contract or other binding document. Increases to the original scope of the binding document must be supported by authorised amendment.

**NOTE 6:** The PPM prescribes the process that must be followed in terms of approving procurement contract amendments: Non-material amendments (i.e. where the scope, value and/or period of the contract is less than 10% of the original contract value): the manager with the delegation of authority may effect such amendment and is only required to inform the AC (if within the AC jurisdiction) of such amendment as soon as possible thereafter. The manager who approves the amendment may be the original signatory of the contract if the cumulative value of the amended contract is still within his/her delegation of authority. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.

- Material amendments within the AC threshold (i.e., where the scope, value and/or period of the contract is greater than 10% of the original contract value): the manager with the delegation of authority may not effect such amendments without the PRIOR approval of the relevant AC first of such amendment. Following AC approval such amendment needs to be signed off by the original signatory (i.e. the person with delegation of authority who signed the initial contract or the person mandated to do so) provided the cumulative value of the contract and subsequent amendment(s) still falls within his/her delegations. However, if the cumulative value of the amended contract is above the original signatory's delegation, the amendment must be approved by the next level of authority on review and recommendation of the original signatory.
- NOTE: As a general rule, contracts may be amended by not more than 40% of the original contract value. Any deviation (as provided for in the paragraph below) in excess of this threshold will only be allowed in exceptional circumstances.
- Amendments in excess of 40% of the original contract value or contract period will be dealt with as follows: In such cases, PRIOR review and recommendation must be obtained from the appropriate AC first, as well as the original signatory. Thereafter, the matter must be submitted for approval to the person with delegations one level higher than the person with the delegation of authority to approve the amended value. This rule applies regardless of whether the amendment is still within the original signatory's delegation of authority or above it. On approval, the amended contract will be signed off by the person with the delegation of authority to sign off the contract value concerned. However, this rule does not apply to amendments falling within the GCE, Acquisitions and Disposals Committee or the Board's delegation of authority. For such contract amendments, the matter will be submitted to the GCE, Acquisitions and Disposal Committee or the Board regardless of the value of the contract amendment (provided the cumulative value is still within their delegations of authority).
- For higher value contracts (i.e. those signed by the operating division's GE, the GCFO or GCE), it is advisable to obtain a written mandate from that official empowering a delegate to administer such contract and to effect changes to such contract not exceeding 10% of the initially approved contract value.

### 5.5.1 Entering into and/or signing of Contracts and/or Agreements and award of business: (including the sale of scrap)

| Approval Authority → | CE:OD and GE:TCP | | GCSCO | GCFO | GCE | Acquisitions and Disposals Committee | Board |
|---|---|---|---|---|---|---|---|
| Operating Divisions (including TCP) | Up to but not exceeding R700 million | | Up to but not exceeding R750million | Up to but not exceeding R1billion | Up to but not exceeding R1.5billion | Up to but not exceeding R2.5billion | Exceeding R2.5billion |
| Approval Authority → | GE: Specialist Unit GE (i.e. Foundation & Property | Group Exco Members | GCSCO | GCFO | GCE | Acquisitions and Disposals Committee | Board |
| Specialist units (excluding TCP) | Up to but not exceeding R5m subject to the contract period not exceeding 5 years | Up to but not exceeding R30 million subject to the contract period not exceeding 5 years | Up to but not exceeding R750million | Up to but not exceeding R1billion | Up to but not exceeding R1.5billion | Up to but not exceeding R2.5billion | Exceeding R2.5billion |

Contract award delegation carries with it the authority to issue letters of intent, letters of award, letters of regret and signing of the final contract. Values are per contract for the full term of the contract (Total value of contract excluding VAT) on condition that approval has been obtained for the related expenditure over the period. Please refer to the conditions stipulated below.
Payments: Once the decision to contract has been issued, contract execution will be governed by the Operating Divisions or Specialist Units, including the payment process provided that the contract amount is not exceeded.

5.5.1.1 **Contracts > R700 million, including Transnet's top 70% value opex items and capex contracts**
Prior to entering into a high value (greater than R700 million) / highly complex contract (especially for the top 60% value opex items as dealt with by iSCM Strategic Sourcing commodity teams), any authorised official must first liaise with a multi-disciplinary team of experts at Corporate Centre, who should each sign off on any agreement/contract or other binding document:

- Group iSCM.
- Group Legal Services – entire document.
- GCFO to sign-off after sign-off from the Finance Departments (Group Finance/Reporting Financial Planning, Tax and Treasury).
- Group Risk.
- Group Insurance.
- Contracts less than R700 million within the OD's limit of authority, require a similar process as set out above to be followed by the relevant OD.

5.5.1.2 **Contracts with foreign exchange exposure**

- Approval to enter into an agreement/contract or other binding document involving foreign currency exposure (including ***international agreements***) may not be sub-delegated lower than to the Chief Procurement Officer (CPO) of an OD. Approval of the divisional CFO is required to enter into the contracts that may result in foreign currency exposure.
- The duly authorised official must obtain prior written approval in respect of FX agreements above R50million from Group iSCM, Group Legal Services, Group Treasury, Group Tax, Group Risk, Group Insurance and Group Reporting, both where the contract will be concluded in foreign currency and especially in such cases where foreign contracts will be concluded in South African Rand, as this may expose the Company to an embedded derivative. All FX agreements above R100million must apart from the above also obtain written approval from the GCFO. The GCFO to sign-off after sign-off from Group Treasury, Group Tax, Group Risk, Group Insurance, Group /Reporting, Group Legal Services (the entire document) and Group iSCM.

5.5.2 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes locally: (excluding lease contracts and the sale of scrap)**

| **Approval Authority →** | **CE:OD/GE:SU Commercial Limit per Annum per contract up to but not exceeding 5 years** | **GCFO Limit per Annum per contract up to but not exceeding 5 years** | **GCE Limit per Annum per contract up to but not exceeding 5 years** | **Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years** | **Board Limit per Annum per contract and contracts exceeding 5 years** |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R500 million but not exceeding R2.5 billion for the total contract | Up to but not exceeding R700 million but not exceeding R3.5 billion for the total contract | Up to R2.5billion per annum but not exceeding R12.5billion for total contract value | Up to R3 billion per annum, unlimited total contract value | Exceeding R3 billion per annum and unlimited total contract value |
| **Approval Authority →** | **Specialist Unit CE Limit per Annum per contract up to but not exceeding 5 years** | **GCFO Limit per Annum per contract up to but not exceeding 5 years** | **GCE Limit per Annum per contract up to but not exceeding 5 years** | **Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years** | **Board Limit per Annum per contract and contracts exceeding 5 years** |
| Specialist Units | Up to but not exceeding R10 million | Up to but not exceeding R700 million but not exceeding R3.5 billion for the total contract | Up to R1 billion but not exceeding R5 billion for the total contract | Up to R3 billion per annum, unlimited total contract value | Exceeding R3billion per annum and unlimited total contract value |

- Integrated customer agreements where a service incorporates more than one division must be signed off by the Group Executive: Legal and Compliance, GCFO and the Group Executive: Commercial in addition to sign off by the CE: ODs, up to but not exceeding revenue of R500million per annum not exceeding 5 years.

- If the contract period is below 12 months the contract value is to be annualised and the delegated authority required to approve the transaction will be determined by the annualised amount.
- All limits indicated above are exclusive of VAT
- Board approval is required if the annual value of the contract exceeds R3 billion.

5.5.3 **Entering into and/or Signing of Revenue Contracts/Agreements and authority to issue binding quotes internationally including cross border contracts: (excluding lease contracts and the sale of scrap)**

| Approval Authority → | CE:OD Limit per Annum per contract up to but not exceeding 3 years | GCFO Limit per Annum per contract up to but not exceeding 5 years | GCE Limit per Annum per contract up to but not exceeding 5 years | Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5 years | Board Limit per Annum per contract and contracts exceeding 5 years |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R300 million | Up to but not exceeding R500 million | Up to but not exceeding R1 billion | Up to but not exceeding R3billion | Exceeding R3 billion |
| Approval Authority → | GE:SU Group Exco Members Limit per Annum per contract up to but not exceeding 3 years | GCFO Limit per Annum per contract up to but not exceeding 5 years | GCE Limit per Annum per contract up to but not exceeding 5 years | Acquisitions and Disposals Committee Limit per Annum per contract and contracts exceeding 5years | Board Limit per Annum per contract and contracts exceeding 5 years |
| Specialist Units | Up to but not exceeding R200 million | Up to but not exceeding R500 million | Up to but not exceeding R1 billion | Up to but not exceeding R3 billion | Exceeding R3 billion |

5.5.4 **Internal Contracts**

Contracts between OD and/or SUs such as service level agreements and project specific agreements may be entered into between CE:ODs or GE:SUs.

5.5.5 **Property and Lease Agreements**

All internal and external Property Lease Agreements including revenue generating leases and expenditure leases (excluding vacant land).

| Approval Authority → | CE:OD and GE:TCP | GE: Transnet Property | GCFO | GCE | Acquisitions and Disposals Committee |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R100 29 million per lease per annum | Up to but not exceeding R200 million annualised | Up to but not exceeding R200 million full term | Up to but not exceeding R500 million full term | Exceeding R500 million full term |
| | Tenure not exceeding 5 years | Tenure not exceeding 10 years | Tenure not exceeding 10 years | Tenure exceeding 10 years | Tenure exceeding 15 years |

- Tenders that include alienation/leasing out of land for a period longer than 5 years must be submitted to the GCE for approval prior to going out on tender or RFP.
- Cession of leases: All cession or assignment of Lease agreements shall be approved by the GCFO or Group Executive: Transnet Property. For cession of leases at OD level, the CE of the respective OD/SU may approve cession or assignment of lease agreements.
- Cession of lease agreements, renewals and extensions of lease agreements with a change to material terms of the existing lease e.g. extension or shortening of the lease period, change of rental terms etc. may be approved in terms of the above limits i.e. where the original lease was approved in terms of the delegated authority above, changes of material terms to be approved by the same approval body.
- All external Lease Agreements (> 5 years) of properties on land/properties adjacent to other land/properties of ODs and/or belonging to Transnet Property, must be communicated and agreed with the relevant division/Transnet Property before entering into any Lease Agreements.
- All leases for vacant land may only be approved by the GCE with the above limits for the GCE applicable i.e. if the lease value exceeds R500million or the tenure exceeds 15 years then Acquisitions and Disposals Committee approval is required. For the purposes of this transaction vacant land is considered to be undeveloped land.
- In cases where vacant land is leased out with its own rental premium applicable to it and a separate rental premium for improvements located on the portion of the same leased site, although part of one lease transaction – to the extent that the

proposed lease has lettable vacant land, the GCE shall approve such lease transactions in line with his limits of authority as stated in the table above.

- Interdivisional leases for vacant land may be entered into and signed by the respective CE: ODs/GE: TCP/GE: Transnet Property.
- Leases for vacant land exclude the leasing in of land to be used for lay down areas and borrow pits for projects.
- Special Delegation to apply to the CE of TNPA in compliance with the National Ports Act of 2005 as amended.
- Internal leases between Transnet Property and the ODs/SUs may be signed by the CEs or GE's of the respective ODs/SUs.
- Revenue Generating Leases: Lease agreements concluded by Transnet in its capacity as lessor for purposes of generating revenue.
- Expenditure Lease: Lease agreements concluded by Transnet in its capacity as a Lessee.
- Properties on DPE approved Transnet non-core list may only be leased out for a maximum period of 10 years. Any leases of these non-core properties for longer than 10 years require s 54 (2) of the PFMA approval by the DPE.

5.5.6 **Non-Disclosure Agreements**

Non-Disclosure Agreements can, with the authority to sub-delegate, be signed by the CE: ODs or GE: SU provided there are no direct monetary obligations created for Transnet.

5.5.7 **Memorandum of Understanding**

A Memorandum of Understanding must be signed by the Group Chief Executive, with the authority to sub-delegate, to the CE: OD or GE: SU.

5.6 **Legal Services**

**NOTE:** The provision of legal services must be in accordance with the Legal Policy. In respect of all litigation the bearer of the authority may, after taking legal advice from Group or Divisional Legal Services, as the case may be, execute all documents and do all things necessary to give effect to his/her authorisation including submission through governance structures.

5.6.1 **Commencing and settling any litigation, arbitration and other forms of Alternative Dispute Resolution**

| Approval Authority → | Divisional Head: Legal | CE:OD, GE: Transnet Property and GE:TCP | GE: Legal and Compliance | GCFO | GCE |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R2million | Up to but not exceeding R10 million. Greater than R10 million but less than R35 million with concurrence of GE: Legal and Compliance | Up to but not exceeding R50 million | Up to but not exceeding R100million with concurrence of GE: Legal and Compliance | Exceeding R100 million |

Approval limits are per litigation matter and relate to the settlement amount of that particular matter.

5.6.2 **Disputes with Government and matters posing a reputational risk to the Company**

| Approval Authority → | Risk Committee | Board |
|---|---|---|
| | Matters which pose a reputational risk to the Company should be submitted for consideration. | Any disputes with government entities or where the outcome of any litigation, arbitration or similar proceedings is likely to have a material effect on the business, financial condition or prospects of the Company |

5.6.3 **Defending matters in court or any other competent forum**

| Approval Authority → | Legal Manager |
|---|---|
| | Defending, subject to the Legal Policy, any litigation (actions or applications) in court or any other competent forum, including the appointment of attorneys and/or advocates for such proceedings |

NOTE: the Standard Operating Procedures for Litigation Matters prescribes the following:

- Upon receipt of instructions, the Legal Advisor must ascertain from the facts of the case and in law whether:
  - Transnet has legal grounds to pursue litigation and whether it would be financially viable to pursue litigation bearing in mind the quantum of the matter and the costs of pursuing the matter;
  - It would be more advisable to settle the matter;
  - There is any reputational or other risk to Transnet in proceeding with the litigation;
  - Whether there is any precedence that needs to be created by the company for future similar matters.
  - Should the Legal Advisor be satisfied that, on the facts presented, Transnet should institute legal action, the Legal Advisor must submit a written request to the person duly authorised, in terms of the Delegations of Authority Framework, for approval:
    - To institute litigation on behalf or Transnet, and
    - To appoint an external attorney from the Transnet approved panel of attorneys.

5.6.4 **Subject to the Legal Policy, the appointment of external advisors, attorneys, advocates and any other external legal advisors including adjudicators, mediators, arbitrators for purposes of alternative dispute resolution process under NEC3 contracts or any other contract.**

| Approval Authority → | CE:OD | GE: Legal and Compliance | GCE |
|---|---|---|---|
| OPERATING DIVISION | Up to but not exceeding R25 million | Up to but not exceeding R50 million | Exceeding R50 million |
| | Specialist Units GEs and Heads of Legal | GE: Legal and Compliance | GCE |
| Specialist Units GEs and Heads of Legal | Up to but not exceeding R10 million | Up to but not exceeding R50 million | Exceeding R50 million |

- The amounts indicated relates to the claim amount in the case of commencing litigation, and the estimated legal fees to be charged in all other matters.

5.6.5 **Pleading to criminal charges and payment of penalties imposed by Regulators.**

| Approval Authority → | CE:OD | GE: Legal and Compliance | GCE |
|---|---|---|---|
| OPERATING DIVISION | Up to but not exceeding R25 million | Up to but not exceeding R50 million | Exceeding R50 million |
| | Specialist Units GEs and Heads of Legal | GE: Legal and Compliance | GCE |
| Specialist Units GEs and Heads of Legal | Up to but not exceeding R10 million | Up to but not exceeding R50 million | Exceeding R50 million |

- The amounts indicated relate to the amount of fine or penalty competent or imposed against the Company.

5.7 **Human Resources**

**INTRODUCTION**

The Delegation of Authority for Human Resources provides for controls and good governance in the following areas:

- Organisation Management
- Personnel Appointments and Remuneration
- Appointment of Fixed Term Contract Employees
- Interim / *Ad hoc* Remuneration Adjustments
- Rewards / Awards / Exceptional Payments / *Ex-gratia* Awards
- Suspension of Employees
- Dismissal of Employees
- Mutual Separation Agreements
- Collective Bargaining and Trade Union Recognition
- Deviation from approved Human Resources Policies

**PRINCIPLES**

1. Any approval in the Human Resources environment must be obtained from a manager who is at least one hierarchical reporting level higher than the employee for whom authorisation is required.
2. When acting in a higher capacity, decision for own portfolio or department that will ordinarily be recommended by the acting incumbent must be referred to one level higher.
3. Where an incumbent acts in a higher position, the full powers of delegation of the position in which the person is acting, may be transferred to the acting incumbent. The incumbent's immediate line manager must agree to the appointment of the acting person. The powers delegated to the person acting must be clearly set out in a written document and the person delegated the powers must sign written acceptance of the powers.
4. Each OD may implement stricter delegations and increase the level of authority above those set out in the document. Any such change must be in writing.
5. The HR delegations contained herein cannot be sub-delegated except when delegating to an acting incumbent acting in the roles specified therein.
6. Board recommendation and approval is required for the appointment and remuneration of the Transnet GCE and GCFO.
7. The Remuneration, Social and Ethics Committee (REMSEC) provides final approval for the annual reward allocation including the salary mandate.

All matters relating to the position of the GCE and GCFO are reserved for the Board and Shareholder Minister in line with the Company's governing legislation and mandates.

**ABBREVIATIONS**

The abbreviations used in the Human Resources Delegation of Authority are set out in the table below:

| | |
|---|---|
| FA | Final Approval |
| FA:CC | Final Approval for Corporate Centre |
| FA:OD | Final Approval for Operating Division |
| R | Recommendation |
| R:OD | Recommendation by Operating Division |
| A | Has provided advice |
| A:OD | Advice provided by Operating Division |
| C | Consultation |
| N | Noting |
| I | Initiation |
| GE: HR | Group Executive: Human Resources |
| CE, GE | Chief Executive of OD or relevant Group Executive of Corporate Staff Department |
| GM: HRE | General Manager: Human Resources Enablement |
| GM:HR,CC | General Manager: Human Resources, Corporate Centre |
| GM: ER | General Manager: Group Employee Relations |
| OD HR: GM | General Manager: Human Resources at the Operating Division |
| LM: GM | Line Management - General Manager |

The table below sets out the delegation framework for Human Resources.

| 1 | | Organisation Management: Creation of New Positions / Change to Positions / Restructuring<br>• No permanent or fixed term contract position can be created or the grade level changed unless the approved Organisation Management governance was followed in respect of the evaluation of positions and justification of grade levels. | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| HUMAN RESOURCES | | Shareholder | Board | RemSEC | GCE | GE HR | OD/SU CE/ GE | OD HR GM/OD COO | EM:GM |
| 1.1 | Group Exco (A level) Executive Directors | FA | R | | | | | | |
| 1.2 | Group Exco A Level | | | | | | | | |
| 1.3 | General Managers (B level) | | | C | FA | I | | | |
| 1.4 | Executive Managers (C level) | | | | | R | ~~R~~-FA | | |
| 1.5 | Senior Management (D level and below) | | | | | ~~A~~ | FA | FA | R I |
| 1.6 | Organisational Structure of ODs/SUs/TCC | | | | FA | R | | | FA |

| 2 | | Personnel Remuneration<br>• The RemSEC reviews the GCE's assessment of performance. The remuneration of the abovementioned category of employees shall be based on the Remuneration Policy.<br>• The appointment and remuneration of all management level employees (levels A to F) will be guided by the Guidelines and Salary Bands issued by the Group Remuneration Office. These Guidelines and Salary Bands will take into account the occupational specific categories.<br>• For managers in levels A and B the Group Remuneration Office will recommend the appropriate remuneration bands based on market information and internal parity. Approval of the final appointment and remuneration package will be in terms of the delegations below.<br>• Each OD will apply the Guidelines and Salary Bands when appointing and structuring the packages of management employees in levels C and below. Approval of the final appointment and remuneration package will be in terms of the delegations below.<br>• After salary adjustments and before a mandate is sought for the next financial year, the Group Remuneration Office will conduct a comparative analysis of salaries across ODs to inform the Group Guidelines and Salary Bands of managers for the new financial year. Affordability and the need for internal and external parity will inform these guidelines. | | | | | | |
|---|---|---|---|---|---|---|---|---|
| HUMAN RESOURCES | | Shareholder | Board | RemSEC & CORP GOV | GCE | GE: HR | OD/SU CE/ GE | ODHR GM |
| 2.1 | Group Exco (A level) Executive Directors | FA | R | | | | | |
| 2.2 | Group Exco (A Level) | | | | | I | | |
| 2.3 | General Managers (B level) | | | C | *FA | R | | |
| 2.4 | Executive Managers (C level) | | | | FA | R | R | |
| 2.5 | Senior Manager (D level and below) | | | | | ~~R~~ A | FA | R |
| 2.6 | I | | | | | | FA | FA |

| 3 | Appointment of Employees (Indefinite Contract and Fixed-Term Contract Employees)<br>• A person appointed on an indefinite contract or fixed-term contract (for a specific period of time or to perform a specific project) must be appointed into an approved graded position.<br>• Once the appointment has been approved, the person delegated to approve the appointment may sub-delegate the signing of the contract of employment.<br>• Any appointment of a person on an indefinite or fixed term contract for employment outside of the borders of South Africa must be approved by the Group Chief Executive on recommendation from the Chief Executive of the Operating Division or the Group Executive of Human Resources for Transnet Corporate Centre, including Transnet property and Transnet Capital Projects. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **HUMAN RESOURCES** | **Shareholder Approval** | **Board** | **RemSEC/ Corp Gov** | **GCE** | **GE: HR** | **OD/ CE/GE** | **GM:HR, CC** | **OD/SU HR GM** | **LM: GM** | **OD:HR Manager** |
| 3.1 Group Exco (A Level) Executive Directors | FA | R | C | | | | | | | |
| 3.2 Group Exco (A Level) | | | C | FA | R | | | | | |
| 3.3 General Managers (B level) | | | | | R | FA | I | I | | |
| 3.4 Executive Managers (C level) | | | | | | | R | FA | I | |
| 3.5 Senior Management (D level and below) | | | | | | | | R | FA | |
| 3.6 Manager (E level and below) | | | | | | | | | FA | I |
| 3.7 Bargaining Unit | | | | | | | | | FA | I |

* The Chairpersons of Remuneration, Social and Ethics and the Corporate Governance and Nominations Committees will be consulted by the GCE for the appointment of Group Exco Members (other than executive directors). The consultation will be through a memorandum submitted to the Chairpersons of the Committees.

| 4 | Counter Offers<br>If an employee produces a written and current counter offer of employment with details of the remuneration package, and the Company seeks to retain the employee based on the criticality of the employee's skill, an interim adjustment of the employee's current remuneration package may be offered in terms of the delegations below. Any counter offer must be in accordance with the Group Guidelines and Salary Bands issued by Group Remuneration. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **HUMAN RESOURCES** | **Shareholder** | **Board** | **RemSEC/ Corp Gov** | **GCE** | **GE: HR** | **OD/SU CE/ GE** | **OD/ HR GM** | **GM:HRE** | **LM:GM** |
| 4.1 Group Exco (A level)Executive Directors | FA | R | C | | | | | | |
| 4.2 Group Exco (A level) | | | FA | R | R | | | R I | |
| 4.3 General Managers (B level) | | | | FA | R | R | R I | I | |
| 4.4 Executive Managers (C level) | | | | | FA | R FA | R | R | R I |
| 4.5 Senior Management (D level to Level F) | | | | | | FA | FA R | FA:CC R | R I |
| 4.6 Bargaining Level employees (in accordance with the applicable Collective Agreement) | | | | | | | FA | FA:CC | R |

| 5 | Interim Salary Adjustments<br>• In line with the Group Remuneration Philosophy approved by the REMSEC, there will be no interim / *ad-hoc* remuneration adjustments. |
|---|---|

***5 Internal Rewards / Awards / Exceptional Payments / Ex-gratia Awards***

- ***The amounts reflected below are per initiative (not per individual employee payment) per annum***

| HUMAN RESOURCES | Board | RemSEC | GCE | GE: HR | OD CE/ GE | HR GM | GM: HRE | GM Line Manager |
|---|---|---|---|---|---|---|---|---|
| 5.1 R15m and above | FA | R | R | R I | | | R | |
| 5.2 Between R10m but not exceeding R15m | | FA | R | R I | | | R | |
| 5.3 Between R50 000 but not exceeding R10m | | | FA | R | R | I | R I | |
| 5.4 Between R20 000 but not exceeding R50 000 | | | | | FA | R | R | R I |
| 5.5 Up to but not exceeding R20 000 | | | | | FA | R | R | R I |
| 5.6 Up to but not exceeding R 10 000 | | | | | FA | R | R | R I |

| 6 | Suspension of Employees<br><br>• The suspension of all employees is per the delegations of authority below.<br>• In the case of the suspension of a bargaining unit employee, the relevant OD Employee Relations Manager must recommend the suspension based on the merits of the case. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **HUMAN RESOURCES** | **Shareholder** | **Board** | **RemSEC/ Corp Gov** | **GCE** | **GE: HR** | **OD/SU CE/GE** | **OD/SU HR GM** | **GM: ER** | **LM: GM** | **LM** | **ER Manager** |
| 6.1 Group Exco (A level Executive Directors | FA | R | C/N | | | | | | | | |
| 6.2 Group Exco (A level excluding executive directors) | | | N | FA | R | R | | | R | | |
| 6.3 General Managers (B level) | | | | N | R | FA | | R | | | |
| 6.4 Executive Managers (C level) | | | | | | FA | R | A | R | | |
| 6.5 Senior Management (D level to F level) | | | | | | | R | | FA | R | A |
| 6.6 Bargaining unit employees | | | | | | | A | | | FA | R |

| 7 | Dismissal of Employees<br><br>• The dismissal of any employee for reasons of discipline or incapacity must be preceded by a fair hearing/process in line with Company policies.<br>• The required authority to seek a dismissal of an employee at a disciplinary or incapacity hearing must be obtained prior to the hearing.<br>• The dismissal of an employee for operational requirements must be preceded by a fair consultation process. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **HUMAN RESOURCES** | **Shareholder** | **Board** | **GCE** | **GE: HR** | **OD/SU CE/GE** | **OD/ HR GM** | **GM: ER** | **LM: GM** | **LM** | **ER Manager** |
| 7.1 Group A level Executive Directors | FA | R | | | | | | | | |
| 7.2 Group Exco (A level excluding executive directors) | | N | FA | R | | | I | | | |
| 7.3 General Managers (B level) | | | FA/N | R | FA | | I | | | |
| 7.4 Executive Managers (C level) | | | | | FA | R | I<br>R:CC | R | | I |
| 7.5 Senior Management (D level to F level) | | | | | N | R | | FA | R | R |
| 7.6 Bargaining unit employees | | | | | | | | | FA | R |

| 8 | Mutual Separation<br><br>• Terms and conditions and financial settlement amounts of mutual separation agreements for A – D Roles will be guided by the Guidelines issued by the Group Remuneration Office. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **HUMAN RESOURCES** | **Shareholder** | **Board** | **RemSEC** | **GCE** | **GE: HR** | **OD/SU CE/GE** | **OD/SU HR GM** | **GM:HR, CC** | **GM:ER** | **LM:GM** |
| 8.1 Group Exco (A level ) Executive Directors | FA | R | | | | | | | | |
| 8.2 Group Exco (A level ) | | | FA | R | R | | | I | I | |
| 8.3 General Managers (B level) | | | N | FA | R | R | | I | I | |
| 8.4 Executive Managers (C level and below) | | | | | | FA | R | | R | I |

| 9 | Settlement of Legal Disputes of Employees and Arbitration<br>The settlement of labour disputes at a disciplinary hearing, at the Transnet Bargaining Council, the CCMA, the Labour Court or High Court is subject to approvals in terms of the delegations below | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| HUMAN RESOURCES | Shareholder | Board | GCE | GE: HR | OD CE/ GE | OD HR GM | GM: ER | GM Line Manager | ER Manager |
| 9.1 Group Exco (A level) Executive Directors | FA | R | | | | | | | |
| 9.2 Group Exco (A level) excluding Executive Directors | | N | FA | R | | | I | | |
| 9.3 General Managers (B level) | | N | FA | R | R | | I | | |
| 9.4 Executive Managers (C level) | | | | | FA | R | A | R | I |
| 9.5 Management (D levels and below) | | | | | | FA | | R | I |
| 9.6 Bargaining unit employees | | | | | FA | R | | | I |

| 10 | Collective Bargaining and Trade Union Recognition<br>• Collective agreements shall only be concluded where a collective agreement as required by law<br>• Shift patterns and working arrangements are matters for consultation and not collective agreement | | | | | | |
|---|---|---|---|---|---|---|---|
| HUMAN RESOURCES | RemSEC | GCE | GE: HR | OD/SU CE/ GE | OD HR GM | GM:ER | LM:GM |
| 10.1 Conclusion of any Collective Agreements with Labour excluding shift patterns and matters for consultation | | | FA | R | R | R I | |
| 10.2 Mandate for salary and wage negotiations | FA | R | R | | | R I | |
| 10.3 Recognition of Trade Union and Signing of Recognition Agreement | N | N | FA | | | R I | |

| 11 | Report all human Capital Risks | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | Board | Risk Committee | Corp Gov | RemSEC | GCE | GE:HR |
| | FA | C | N | C | R | I |

| 12 | Deviation from Approved Human Resources Policies and recommendation of policies | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| HUMAN RESOURCES | Risk Committee | Group Exco | GCE | | GE: HR | OD/SU CE/GE | OD HR GM | GM: ER | GM:HR,CC |
| 12.1 Any deviation from a Transnet HR Policy* | | | FA | | R | R | R | I | I |
| 12.2 Approval of HR policies* | | FA | | | R | | | | |

* Excluding Board approved policies.

5.8 **General Delegations**

5.8.1 **Chartering of Aircraft**

| Authority Level | OD / GE:SU | GCFO | GCE |
|---|---|---|---|
| Chartering of Aircraft | NIL | Up to but not exceeding R3 million | Exceeding R3 million |
| Chartering of helicopters for operations | R250 000* | Up to but not exceeding R1 million | Exceeding R1 million |

* The limits for CE:ODs/ GE: SUs are cumulative per helicopter per month.

5.8.2 **Mobile phones: Authorising payments exceeding monthly limits (reflected in mobile phone contract)**

| Companywide | Group Exco Member | GCFO | GCE |
|---|---|---|---|
| | Up to but not exceeding R10 000 per month | Up to but not exceeding R20 000 per month | Exceeding R20 000 per month |

5.8.3 **Entertainment Expenditure**

| Authority Level | OD: CE/ Group Executives | GCE |
|---|---|---|
| | Up to but not exceeding R50 000 per occasion | Amounts exceeding R50 000 per occasion |

Costs incurred by any person on behalf of the Company must be authorised by that person's superior and must be within the approved budgetary limits. Supporting documentation should be marked cancelled to prevent re-use thereof. All entertainment expenses must be business related expenses.

5.8.4 **Rewards/Awards/Exceptional Payments to external parties: (Examples: *Ex-gratia* awards, exceptional performance, recognition payments)**

| | CE:OD | GCFO | GCE | REMSEC | Board |
|---|---|---|---|---|---|
| Operating Divisions(incl TP and TCP) | Up to but not exceeding R50 000 | Up to but not exceeding R100 000 | Up to but not exceeding R5million | Up to but not exceeding R10million | Exceeding R10million |
| | Group Executive | GCFO | GCE | REMSEC | Board |
| Specialist units | Up to but not exceeding R50 000 | Up to but not exceeding R100 000 | Up to but not exceeding R5million | Up to but not exceeding R10million | Exceeding R10million |

5.8.5 **Sponsorships and Donations**

| Approval Authority → | OD CE | GCFO | GCE | REMSEC | Board |
|---|---|---|---|---|---|
| Operating Divisions | Up to but not exceeding R5million | Up to but not exceeding R7million | Up to but not exceeding R15million | Up to but not exceeding R20million | Exceeding R20million |
| Approval Authority → | Group Executive | GCFO | GCE | REMSEC | Board |
| Specialist Units | Up to but not exceeding R2million | Up to but not exceeding R7million | Up to but not exceeding R15million | Up to but not exceeding R20million | Exceeding R20million |

Approval limits are cumulative per annum e.g. the CE:OD can approve a total amount of R5m per annum for sponsorships and donations.

5.8.6 **Annual filing of tariff applications with Regulators**

- OD tariff increase applications to be submitted to Exco for approval.
- The CE: OD in concurrence with the GCFO are delegated to file the Tariffs applications with relevant Regulatory bodies.

5.8.7 **International Business Travel (including travel to African countries)**

| | Approval Authority |
|---|---|
| Below CE:OD level at Operating Division | GCE |
| CE:OD | GCE |
| Corporate Centre | GCE |
| Specialist Units | GCE |
| Group Executives | GCE |
| Travel to SADC Countries | CE: TFR / CE: TE / GE: Planning and Sustainability |

| | |
|---|---|
| GCE and Chairperson | User – Retrospective review by GCE or Chairperson and vice versa. |

Business benefits, analysis and purpose to be demonstrated in the application to the respective approval authority. Post travel a report back on the achievement of the above to be submitted to the respective approval authority.

**5.8.8 Domestic Business Travel**

| | Approval Authority |
|---|---|
| Chairperson/GCE/Group Exco Members | User |
| GE of Specialist Unit | Group Exco member responsible |
| General Managers/Extended Exco | CE:OD/CFO:OD/SU/Group Executives |
| All other levels | Extended Exco |

All travel must be in line with the approved Travel Policy as amended in accordance with the provisions of National Treasury Instruction Note 1 of 2013/14. Extended Exco Members at an OD/SU may sub-delegate to the appropriate lower level.

**5.8.9 Communication**

| | Approval Authority |
|---|---|
| External communication on strategy and operations | GM: Public and Corporate Affairs or GCE or his Designate |
| Communication on operational issues relating to an OD | Group Exco Member responsible for OD or any delegated appointee |
| Communication with the Shareholder Minister | Office of the GCE or Chairperson of the Board of Directors |

Approval to attend seminars and or conduct presentations to external parties which may result in indirect communication may be approved by a CE:OD GE:SU or the GCE.

**5.8.10 Establishment of Special Purpose Vehicles (SPVs), Public Private Partnerships (PPPs), Private Sector Participation (PSP) and Trusts**

| | Approval Authority | |
|---|---|---|
| Establishment of SPVs, PPPs, PSPs and Trusts | Board to approve after recommendation by ADC, the GCE, GCFO, GE: Legal and Compliance as per the Materiality and Significance Framework contained in the Compact with the Shareholder if the transaction is specified in the Corporate Plan if not specified in the Corporate Plan then Board may approve the transaction up to but not exceeding capital risk of R100million. Capital risk in excess of R100million are to be recommended by the Board for Shareholder approval. | |
| | **GE: Commercial** | **GCE** |
| Commencement of due diligence/feasibility studies for PSPs, PPPs and SPVs | Up to but not exceeding R5m for the study | Exceeding R5m for the study |

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework.

**5.8.11 Establishment of Joint Ventures or Consortia with Entities Incorporated in foreign jurisdictions**
To be read in conjunction with 5.8.10 above.

| | Approval Authority |
|---|---|
| Establishment of Joint Ventures or Consortia with Entities incorporated in foreign jurisdictions | Approval to enter into an agreement or other binding document establishing a joint venture or consortium with an entity incorporated in foreign jurisdiction requires approval from the Shareholder Minister on recommendation from the Board and in addition, if it also contains foreign currency exposure, approval must be sought and obtained as per the monetary thresholds indicated in the second bullet under item 5.5.1.2 above.<br><br>If capital risk is R100million or below, Board approval is required as per the Materiality and Significance Framework contained in the Compact with the Shareholder. Capital risk in excess of R100million for this transaction are to be recommended by the Board of Directors for approval by the Shareholder. |

The Company shall not without the prior written approval of the Shareholder Minister enter into any transaction which exceeds or falls outside of the limits prescribed by the Shareholder's Compact or the Significance and Materiality Framework (SMF)

**5.8.12 Restructuring and sale of business**

| | Approval Authority |
|---|---|
| Restructuring or sale of business | Board in accordance with Section 54 of the PFMA |

**5.8.13 Pension Fund and Medical Fund Rule Amendments as recommended by the Board of Trustees of the Funds**

| | Approval Authority |
|---|---|
| Changes to the rules of the pension and medical fund that do not require Ministerial approval | GCFO and GCE |
| Rule amendments that require Ministerial approval | Board to recommend to the Minister of Public Enterprises for approval |

5.8.14 **Application for Environmental Authorisation**

- All environmental impact assessment or basic assessment applications must be prepared by a competent independent environmental assessment practitioner/consultant, unless exemption from this provision has been obtained in writing by the Department of Environmental Affairs and under the supervision of the Environmental Department in the OD/SU.
- The application for environmental authorisation must be signed as per the approval authority below.

| | Approval authority to act as applicant for an environmental authorisation for Transnet SOC Ltd |
|---|---|
| Operating Division | Project Manager/ Operations Manager/Environmental Manager |
| Specialist Unit (Transnet Property) | Chief Operations Officer of Property |
| Specialist Unit (Transnet Capital Projects) | Project Director |

- The applicant remains legally responsible for the compliance with the environmental authorisation throughout the implementation of the authorisation.
- Should an authorisation for new capital projects contain operational elements after formal handover of the project by TCP, the DEA needs to be informed in writing of the change in names and acknowledgement from DEA be filed.
- Should any of the above applicants leave the Company, the DEA needs to be informed in writing of the new person responsible for the implementation of the environmental authorisation.

5.8.15 **Application for Liquor Licences (all types)**

| | Approval authority to act as applicant for application for liquor licences for Transnet SOC Ltd |
|---|---|
| Operating Division | Chief Executive |
| Specialist Unit (Transnet Property and Transnet Capital Projects and Foundation) | Group Executive |
| Corporate Centre | Group Chief Executive |

5.8.16 **Company Membership of Industry Associations or International Organisations**

| Approval Authority | CE:OD or GE:SU | GCE | Remunerations, Social and Ethics Committee |
|---|---|---|---|
| | Up to but not exceeding R5 million | Between R5 million and R20 million | Above R20 million. |

**The relevance of such membership shall be reviewed annually by the OD/SU concerned**

5.8.17 **Enterprise Information Management Systems (EIMS) Governance Framework and Charter**
The Group Executive: EIMS is delegated to approve exemptions to the Framework.

5.8.18 **Recommendation on Board-approved Policies**

| Deviation from Policy: | Board | Audit | Risk | ADC | Corporate Governance and Nominations Committee | RemSEC | Group Exco |
|---|---|---|---|---|---|---|---|
| Governance and Ethics Management Policies | FA | | | | | | |
| HR related (succession planning, excluding executive directors) | | | | | R | N | R |
| HR related (succession planning for executive and ) | R | | | | | FA | |
| HR related (perfomance management) | | | | | R | | R |
| Procurement related | FA | | | R | | FA | R |
| Property related | | | | FA | | | R |
| Risk related | | | FA/R | | | | R |
| Treasury Related | | FA | | | | | R |
| Tax related | | FA | | | | | R |
| CSI related | FA | | | | | | R |
| Compliance related | FA | R | | | | R | |
| Marketing and Advertising | FA | | | | | | |
| | | | | | | R | |
| Sustainability (Energy and Water) | | | | | | | |
| B-BBEE | FA | | | | | FA | R |
| PSP | FA | | | R | | R | |
| Financial Policy w.r.t. insurance | | N | FA | | | | R |

# ANNEXURE "MSM 22"

**From:** Mathane Makgatho Corporate JHB
**Sent:** Thursday, 21 August 2014 12:54
**To:** makgathom@telkomsa.net
**Subject:** FW: China Development Bank

**Importance:** High

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**From:** Mathane Makgatho Corporate JHB
**Sent:** 21 August 2014 12:54 PM
**To:** Brian Molefe Transnet Corp; Anoj Singh Corporate JHB
**Cc:** Yusuf Mahomed Transnet Corporate JHB; Dorothy Kobe Transnet Corporate JHB
**Subject:** China Development Bank
**Importance:** High

Dear Brian and Anoj

I trust that all is well with both of you.

This email is a follow up of various discussions I had with yourselves and in some instances with Regiments included where I had indicated my discomfort and disagreement on how the China Development bank facility negotiations are being handled, Regiment's pricing methodology as well as my disagreement of the appointment of Regiments as the Transaction advisor for the facility. For the avoidance of doubt I would like to bring the following to your attention:

1. Overall governance

I respect your Executive Authority and powers that go with it, but I also believe that it is my responsibility as the current Transnet Group Treasurer to advise you on matters relating to Treasury activities. As I indicated, I was not consulted nor was I aware that Regiments was appointed as the Transaction advisor and lead negotiator for the facility as I believe there was no need for them to be appointed given progress that we had made. I do not support that a R26 billion facility be negotiated and led by a transaction advisor, as we cannot and should not negotiate a loan facility in isolation of Transnet's current R90 billion debt portfolio. When we negotiate and enter into agreement with lenders and investors, we make certain undertakings and covenants that should apply to future facilities as well. The fact that Transnet's biggest ever transaction, is negotiated and decided by outsiders (Regiments) is a cause for concern as it exposes the Company to undue risk. When we negotiate a facility of this magnitude, we assemble a multi-disciplinary team that includes legal, tax, accounting, structured finance and risk management team members. This is to ensure that all potential risks relating to the facility are identified and mitigated to the extent possible.

2. Fees

    a. Interest expense

The current pricing indication is not in line with other DFI's; asset backed or even tied facilities. The main reason Transnet has opted to diversify its funding sources to include ECA's and DFI's in its funding portfolio is to increase maturity profile of our debt portfolio and achieve cost effective funding. As China development bank facility is tied to procurement from China, as it is supposed to support CNR and CSR locomotive contracts, the terms and conditions should mirror that of tied facilities as well as asset backed facilities. These two elements (tied and security) should translate into cost effective funds which should be close to local funds as well as simpler terms and conditions. This facility cannot be compared to a GMTN global bond as a GMTN bond is unsecured and untied and does not have other DFI related fees. The pricing of a global bond is transparent and in line with other international bond issuance of similar rated entities. The same is not true with CDB facility.

The table below is a calculation of fixed interest rate based on Jibar + 400 and Jibar + 260 basis points. I have added an additional 50 basis points as a fair price is around 210 and took into consideration size of the facility. In the current market, the proposed CDB structure costs R3.5 billion more in interest expenses.

| 3m Jibor +257 | | | |
|---|---|---|---|
| Year | 3m Jibar + 400 | 3m Jibar + 260 | Difference |
| 1 | 3 187 862 136.99 | 2 814 300 000.00 | 373 562 136.99 |
| 2 | 3 205 377 863.01 | 2 829 720 821.92 | 375 657 041.09 |
| 3 | 3 196 620 000.00 | 2 806 589 589.04 | 390 030 410.96 |
| 4 | 3 122 339 309.06 | 2 726 734 404.83 | 395 604 904.23 |
| 5 | 2 822 806 381.41 | 2 492 584 644.82 | 330 221 736.59 |
| 6 | 2 557 758 415.16 | 2 264 541 530.30 | 293 216 884.86 |
| 7 | 2 299 282 349.33 | 2 035 375 779.94 | 263 906 569.39 |
| 8 | 2 033 505 728.87 | 1 784 990 978.63 | 248 514 750.24 |
| 9 | 1 767 729 108.43 | 1 551 643 101.37 | 216 086 007.06 |
| 10 | 1 514 199 483.61 | 1 325 376 465.54 | 188 823 018.07 |
| 11 | 1 231 607 766.18 | 1 087 686 084.82 | 143 921 681.36 |
| 12 | 966 741 963.49 | 853 857 077.92 | 112 884 885.57 |
| 13 | 703 529 645.32 | 622 779 145.64 | 80 750 499.68 |
| 14 | 438 860 018.76 | 383 781 079.24 | 55 078 939.52 |
| 15 | 172 747 096.36 | 151 087 044.82 | 21 660 051.54 |
| TOTAL | 29 220 967 265.98 | 25 731 047 748.83 | 3 489 919 517.15 |

b. Once off arrangement fee

i. The table below illustrates the amount of money that Transnet has to pay if we agree with Regiment's proposed once off fee of 118 basis points which is R313.3 million. I recommend that at worst, we should settle for 80 basis points which will save the company at least R101 million with the best case scenario being 60 basis points and saving of R154 million. This is in line with other DFI's that Transnet has facilities with.

| Basis points | Amount in ZAR |
|---|---|
| 118 | 313 290 000.00 |
| 110 | 292 050 000.00 |
| 90 | 238 950 000.00 |
| 80 | 212 400 000.00 |
| 70 | 185 850 000.00 |
| 60 | 159 300 000.00 |
| 50 | 132 750 000.00 |

3. Conclusion

It is my believe that the CDB facility in its current form is not in the best interest of the Company or the country given potential capital leakage of up to R3.7 billion in excessive interest expense and excessive arrangement fees which may be classified as PFMA violation given information at our disposal. The additional interest expense will have a negative impact on the already fragile cash interest cover ratio. I therefore recommend that we terminate discussions with China Development Bank and explore other sources of funds. Transnet has proved its ability to raise funds from diverse funding sources even under trying circumstances. In 2008-09, we were able to raise over R22 billion even when the market was "closed" for other issuers. The latest example is our ability to raise R8 billion for the locomotive deposit at short notice. As indicated in the

Company's June 14 going concern document, the Company has sufficient facilities to meet all its obligations as they fall due. The resuscitation of Transnet's domestic bond program and availability of short term facilities will assist in alleviating any potential cash flow problems. Even if domestic spreads can widen, overall pricing will still be much better that the CDB facility.

Sincerely;

TRANSNET

Mathane Makgatho
Group Treasurer
Group Treasury
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# ANNEXURE "MSM 23"

TRANSNET

# 1064 Timelines

## PROCUREMENT

- Business case value R38,6bn
- Contracted value R54,4bn
- Contingency R4,5bn
- Relocation Payments – CNR R647,2m & BT R618,5m

Breakdown:

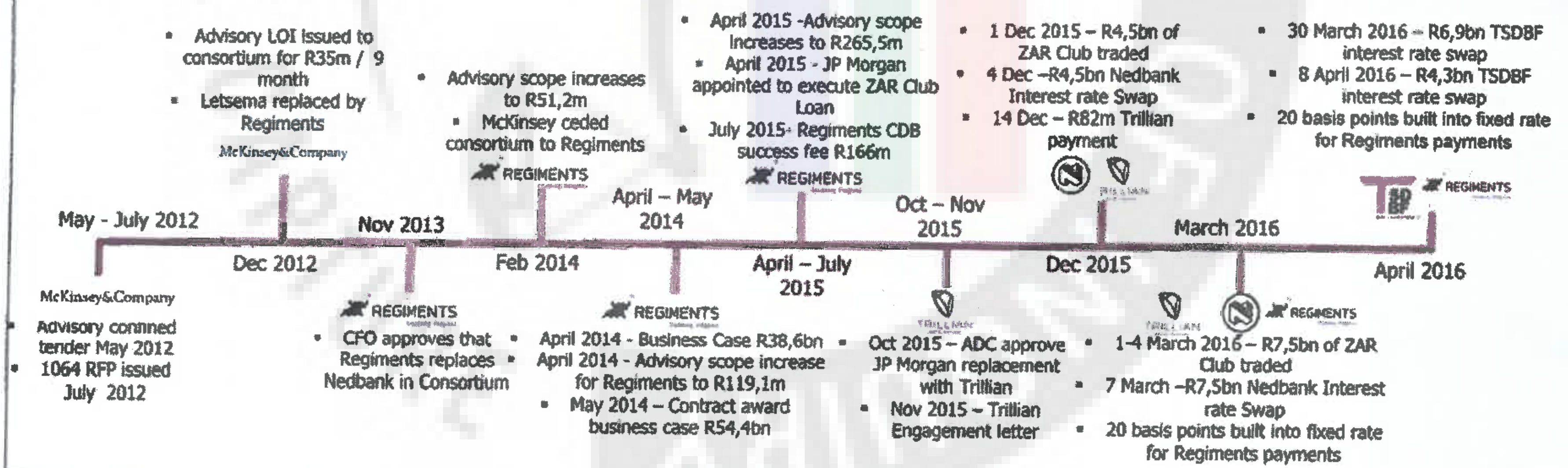
- CSR - 359 locos – R19,9bn
- BT - 240 locos – R14,4bn
- CNR - 232 locos – R10,9bn
- GE - 233 locos – R9,3bn

## LOCO ADVISORY

- LOI issued to McKinsey consortium in December 2012 as part of confined tender process
- Consortium composition changes twice as a result of potential conflicts – Letsema and Nedbank replaced by Regiments
- McKinsey largely worked in Business Case with TFR and GCIA
- February 2014 McKinsey ceded contract to Regiments
- Scope increased several times from original value of R35m to R265m between Dec 2012 and April 2015 (excl legal fees)

## FUNDING

- CDB Loan ($1,5bn)
  - R166m Regiments success fee
- ZAR Club Loan (R12bn)
  - Trillian lead arranger fee R82m (excl VAT)
- Interest rate swaps of R23,3bn in total
  - Incremental interest estimated at R600m per annum
  - Regiments fee (TSDBF) R227m
  - Regiments fee (Nedbank)– Estimated ~ R200m



TRANSNET

# ZAR Club Loan And Nedbank / TSDBF Interest Rate Swaps

- Jul 14 – Jun 15: J.P.Morgan — ADC Appoints JP Morgan to execute ZAR Club Loan
- 28/04/2015: Various loan trades to be swapped in 2016 to value of R11,3bn
- 22/09/2015: Memo justifying payment for Trillian signed by AGCE, AGCFO and Acting Group Supply chain officer
- 01/10/2015: J.P.Morgan — ADC approved termination of agreement with JP Morgan as they could not achieve pricing and tenor that was agreeable to Transnet. Replace JP Morgan with Trillian
- 18/11/2015: Trillian Asset Management engagement letter as lead arranger in support of their SD obligations
- 19/11/2015: Trillian Issues Invoice for payment of R82m excluding VAT and R93.5m including VAT
- 01/12/2015: R4,5bn of the ZAR Club Loan traded
- 04/12/2015: REGIMENTS — Interest rate swap for R4,5bn of the ZAR club from floating to fixed
- 04/12/2015: Transnet Effects payment of R82m excluding VAT and R93,4m including VAT
- 01 - 04/03/2016: R7,5bn of the ZAR Club Loan traded
- 07/03/2016: REGIMENTS — Interest rate swap for R7,5bn of the ZAR club from floating to fixed
- 30/03/2016 – 08/04/2016: REGIMENTS — R1,3bn loans interest rate swaps to fixed rate

| Original Loan Trade Date | Loan Amount | Lender | Floating Rate | Maturity Date |
|---|---|---|---|---|
| 1 December 2015 | R1 500 000 000 | Absa | 9,12% | 2 December 2030 |
| 1 December 2015 | R1 500 000 000 | Bank Of China | 9,22% | |
| 1 December 2015 | R500 000 000 | Nedbank | 9,03% | |
| 1 December 2015 | R500 000 000 | Future growth | 9,03% | |
| 1 December 2015 | R500 000 000 | Omsfin | 9,03% | |

| Original loan Trade Date | Loan Amount | Lender | Floating Rate | Maturity Date |
|---|---|---|---|---|
| 1 March 2016 | R1 500 000 000 | Absa | 9,62% | 2 December 2030 |
| 1 March 2016 | R1 500 000 000 | Bank Of China | 9,72% | |
| 3 March 2016 | R2 500 000 000 | Nedbank | 9,53% | |
| 4 March 2016 | R1 000 000 000 | Future growth | 9,53% | |
| 4 March 2016 | R1 000 000 000 | Omsfin | 5,53% | |

| Original Trade Date | Loan Amount | Lender | Floating | Maturity Date |
|---|---|---|---|---|
| 26-Feb-15 | R6 991 500 000 | EDC Investec | 9,90% | 22-Feb-28 |
| 18-Jul-14 | R1 604 166 667 | Libfin | 8,99% | 19-Jul-32 |
| 04-Jun-15 | R1 000 000 000 | Omsfin/Omsalga | 9,29% | 31-Mar-33 |
| 21-Aug-14 | R1 700 000 000 | Standard Bank | 8,89% | 21-Aug-24 |

Nedbank Facilitate Interest Rate Swaps

TSDBF Facilitate Interest Rate Swaps

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 4 Dec 2016 | R1 500 000 000 | Absa | 11,83% | 2 December 2030 |
| | R1 500 000 000 | Bank Of China | 11,83% | |
| | R500 000 000 | Nedbank | 11,83% | |
| | R500 000 000 | Future growth | 11,83% | |
| | R500 000 000 | Omsfin | 11,83% | |

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 7 March 2016 | R1 500 000 000 | Absa | 12,27% | 2 December 2030 |
| | R1 500 000 000 | Bank Of China | 12,27% | |
| | R2 500 000 000 | Nedbank | 12,27% | |
| | R1 000 000 000 | Future growth | 12,27% | |
| | R1 000 000 000 | Omsfin | 12,27% | |

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 30-Mar-16 | R6 991 500 000 | EDC Investec | 12,07% | 22-Feb-28 |
| 08-Apr-16 | R1 604 166 667 | Libfin | 11,15% | 19-Jul-32 |
| 08-Apr-16 | R1 000 000 000 | Omsfin/Omsalga | 11,15% | 31-Mar-33 |
| 08-Apr-16 | R1 700 000 000 | Standard Bank | 11,15% | 21-Aug-24 |

# ANNEXURE "MSM 24"

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Registration [illegible]

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Street Johannesburg
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TRANSNET

**MEMORANDUM**

www.transnet.net

To : **Garry Pita**, Acting Group Chief Financial Officer

From : **Phetolo Ramosebudi**, Group Treasurer

**SUBJECT : R12 BILLION CLUB LOAN INTEREST RATE RISK EXPLANATION**

**PURPOSE:**

1. The purpose of this memorandum is to obtain approval from the Acting Group Chief Financial Officer to:

1.1. Hedge the interest rate risk exposures from a float for fixed basis for the amount of R12 billion.

1.2. Instruct Regiments Capital as per the 1064 Locomotives mandate to execute the hedges with Transnet approved counterparts.

1.3. The execution cost of hedges by Regiments Capital will be all inclusive in the rate of the interest rate swap.

**BACKGROUND:**

2. A club loan to the amount of R12 billion was recently entered into to fund the locomotive payments to CSR and CNR as well as redemption of loan maturities in February 2016.

3. The club loan was done on a floating rate basis at a cost of 3 month Jibar plus 270 basis points to manage the pricing divergence from all parts.

**DISCUSSION:**

4. The current floating rate risk exposure of the total debt portfolio is 29% after the inclusion of the hedges and 71% fixed.

5. If the full amount of the club loan is included as fixed, the floating rate portion will decrease from 29% to 26%, which is still within Board approved limit in FRMF. This is

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2001

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**MEMORANDUM**

www.transnet.net

---

**To** : **Garry Pita**, Acting Group Chief Financial Officer

**From** : **Phetolo Ramosebudi,** Group Treasurer

**Date** : 02 December 2015

**SUBJECT** : **R12 BILLION CLUB LOAN INTEREST RATE RISK EXPLANATION**

---

**PURPOSE:**

1. The purpose of this memorandum is to provide an explanation to the acting GCFO on the interest rate risk exposure on the R12 billion club loan.

**BACKGROUND:**

2. A club loan to the amount of R12 billion was recently entered into to fund the locomotive payments to CSR and CNR as well as redemption of loan maturities in February 2016.

3. The club loan was done on a floating rate basis at a cost of 3 month Jibar plus 270 basis points.

**DISCUSSION:**

4. The current floating rate risk exposure of the total debt portfolio is 29% after the inclusion of the hedges and 71% fixed.

5. If the full amount of the club loan is included as floating in terms of how the deal was concluded, the floating rate portion will increase to 36%. This is well in line with the FRMF that allows a floating rate portion that may be managed between 10% and 50%.

6. If the full amount of the club loan is included as fixed, the floating rate portion will decrease to 26%, which is still within Board approved limit in FRMF.

7. The cost of the club loan is JIbar plus 270 basis points, which translates into an overall floating rate cost of (6.517% + 2.70%) 9.217%.

8. High level calculations done by our Traders have indicated that to swap the club loan to fix, the mid-rate will be around 11.30% (NACQ). This excludes cost of execution as well as spread between bid and offer which needs to be determined in market.

9. The annual interest rate cost of 9.217% on R12 billion is R1.106 billion, whilst the annual interest cost is R1.36 billion on 11.30%.

10. The latest 3 month Jibar forecast from BER is reflected below to give an indication of what may happen with floating interest rates over the medium term.

| Q4 15 | Q1 16 | Q2 16 | Q3 16 | Q4 16 | Q1 17 | Q2 17 | Q3 17 | Q4 17 |
|---|---|---|---|---|---|---|---|---|
| 6.50% | 6.50% | 6.70% | 6.71% | 6.89% | 6.86% | 6.84% | 6.82% | 6.81% |

**ACCOUNTING:**

11. Any interest rate swap entered into will have to be hedge accounted for to minimise volatility of fair value movements in the Group's income statement.

12. Treasury has never applied hedge accounting on interest rate swaps in the past and there is currently no interest rate swaps in the derivative portfolio.

13. PWC has been appointed a while ago to test system capability to apply either cash flow and or fair value hedge accounting on interest rate swaps and the cash flow hedge accounting process is almost completed, but not finalised.

**CONCLUSION:**

14. It is recommended that the club loan not be switched to a fixed rate exposure by means of an interest rate swap due to the following:

    - If there was a definite need to fix the rate during the finalisation of the club loan, the loan should have been dealt as fixed, as any swap will create an amount of volatility in the income statement due to fair value movements, which could be minimised by the application of hedge accounting.

    - Interest rate swaps will use massive credit lines from banks, which is not that freely available over a 15 year tenor and these lines are required to hedge FX related exposures due to MDS requirements.

    - Swaps will come at a cost, which need to be determined in the market.

    - Liquidity for the R12 billion will have to be tested in the market.

    - There is currently a gap of around 200 basis points between the cost of a floating rate loan and the indicative cost to fix, and based on the forecasts from BER and the additional pressure the cost of swapping to fix will create on the cash interest cover ratio of the Group, it is not recommended to swap the club loan from floating to fix.

**DELEGATION OF AUTHORITY (DOA):**

15. The DOA makes provision for the acting GCFO to approve interest rate risk hedging with an unlimited amount and tenors exceeding 5 years.

**RECOMMENDATION:**

16. It is recommended that the acting GCFO takes note of the interest rate implications on the R12 billion club loan.

**Compiled by:**

**Danie Smit**
Group Treasurer

**Recommended/Not Recommended:**

**Phetolo Ramosebudi**
Group Treasurer

**Approved/Not Approved:**

**Garry Pita**
Acting Group Chief Financial Officer

well in line with the FRMF that allows a floating rate portion that may be managed between 10% and 50%.

6. High level calculations done by our Traders have indicated that to swap the club loan to fix, the mid-rate will be around 11.50% (NACQ), all inclusive of execution cost by Regiments Capital. This excludes the cost of the bid offer spread which needs to be determined in market.

7. The annual interest rate cost of 9.217% on R12 billion is R1.106 billion which is likely to be volatile due to the high inflationary environment ahead, whilst the annual interest cost is R1.38 billion on 11.50%. This eliminates the interest uncertainty for the loan and fixed the commitments for the duration of the loan.

8. The latest 3 month Jibar forecast from BER is reflected below to give an indication of what may happen with floating interest rates over the medium term.

| Q4 15 | Q1 16 | Q2 16 | Q3 16 | Q4 16 | Q1 17 | Q2 17 | Q3 17 | Q4 17 |
|---|---|---|---|---|---|---|---|---|
| 6.50% | 6.50% | 6.70% | 6.71% | 6.89% | 6.86% | 6.84% | 6.82% | 6.81% |

**MOTIVATION**

9. As per the interest rate forecast above, the short term interest rates are expected to increase over the medium period, the poses a serious risk to Transnet debt portfolio which is currently 29% floating;

10. In addition, to this, the volatile currency has a consequential risk to the short term rates too, which will be a double whammy to the rates;

11. The interest rate expense line is expected to increase in line with the increase in the short term rates;

12. This will have a negative impact to the Cash interest Cover ratio to the detriment of Transnet ratings;

13. ~~Therefore it is important to manage the volatility of interest rate risk to contain its~~ negative impact to the cash interest cover ratio.

14. The implementation of the identified financial risk initiatives such as Float for fixed swaps, CPI bond and Swaps will results in the 50% proportion of fixed for floating as illustrated in the figure below.

**CPI LINKED SWAPS:**

15. As part of the progression to relieve pressure on the CIC ratio, thereby managing the cost of interest expense and short to medium term liquidity, a conversion of R15 billion fixed rate debt (bonds) need be swapped to CPI linked debt early in the new-year. This should be in line with the appropriate accounting treatment.

16. The net savings achieved from converting fixed bullet bonds to CPI linked will be positive initially, but will result in large cash outflows at redemption of each bond and Transnet will need to meet liquidity demands as the redemptions of the bonds fall due. The Treasury is developing a solution related to the redemption portfolio to cater for the balloon payments of the CPI bond and swaps.

17. The above will result in lower interest payments over the majority of the life of the bond, but will increase closer to the bond redemption dates.

18. The above action will furthermore increase the duration of the debt portfolio to manage assets and liabilities.

**ACCOUNTING:**

19. Any interest rate swap entered into will have to be hedge accounted for to minimise volatility of fair value movements in the Group's income statement.

20. PWC has been appointed a while ago to test system capability to apply either cash flow and or fair value hedge accounting on interest rate swaps and the cash flow hedge accounting process is almost completed.

**BUDGET AND FINANCIAL IMPLICATIONS:**

21. Interest is budgeted for in corporate plan for 15/16 financial year.

**DELEGATION OF AUTHORITY (DOA):**

22. The DOA makes provision for the acting GCFO to approve interest rate risk hedging with an unlimited amount and tenors exceeding 5 years.

23. An extract of the DOA is reflected below for ease of reference:

"Interest Rate Risk Hedging

| Approval Authority | Notional Amounts | Group Treasurer | GCFO |
|---|---|---|---|
| Group | Notional amount of hedge expressed in USD or equivalent in RAND (FX loans and leases) | Up to but not exceeding $100m or equivalent in RAND | Exceeding $100m or equivalent in RAND |
| Tenure | | Not exceeding 5 years | Exceeding 5 years |

All breaches of the above limits to be reported to the Audit Committees
Note: Where no specific limit is mentioned, the FRMF policy on interest rate risk will apply
The above limits are applicable per hedging submission."

24. The amount of R12billion and tenor of 15 years are within his delegation.

**RECOMMENDATION:**

24. It is recommended that the Acting GCFO approves the hedging of the interest rate risk exposures on a float for fixed basis for all the R12 billion club loan drawdowns.

**Compiled by:**

**Phetolo Ramosebudi**
Group Treasurer
Date: 3/12/15

**Approved/Not Approved:**

**Garry Pita**
Acting Group Chief Financial Officer
Date: 3/12/15

**From:** Phetolo Ramosebudi Transnet Corporate JHB
**Sent:** Wednesday, December 2, 2015 12:50 PM
**To:** Garry Pita Transnet Corporate JHB
**Cc:** Danie Smit Transnet JHB
**Subject:** Re: R12 BN CLUB LOAN INTEREST RATE RISK

Hi Garry

...less this is true if the Club loan is the only transaction Tnet is doing for the entire MDS period. Amid the volatile ...nomic environment ahead of us, with higher inflationary environment, it is important to manage the interest ...e expectation going forward to create that certainty in Tnet interest expense for the management of the CIC. ...s therefore prudent in an high inflation environment and volatile exchange rate to fixed most of the commitm nt fo the same reasons. This will help us to reduce the number of variables to manage the declining EBidta levels.

I am sorry that you received a conflicting message from Danie who didn't consult with me on this.

As the Head of Treasury I am concern with exchange rate and inflation expectations and it is prudent to mange this risk appropriately.

A proper submission is on the way for approval.

Regards
Phetolo

...02 Dec 2015, at 10:46, Garry Pita Transnet Corporate JHB <Garry.Pita@transnet.net> wrote:

Thanks Danie

It is well written and I understand the logic.

Phetolo, are you in agreement that we don't enter into the swaps?

Regards
Garry

Sent from my iPad

On 02 Dec 2015, at 10:39 AM, Danie Smit Transnet JHB <Danie.Smit@transnet.net> wrote:

Hi Garry and Phetólo,

My humble opinion on the interest rate risk exposure of the Club Loan.

Kind regards

Danie

<R12 BN CLUB LOAN INTEREST RATE RISK.docx>

# ANNEXURE "MSM 25"

**From:** Brickman, M. (Moss) <MossB@Nedbank.co.za>
**Sent:** Wednesday, 16 March 2016 1:30 PM
**To:** Phetolo.Ramosebudi@transnet.net
**Subject:** Finalisation of documentation surrounding the swap transaction

@-ms-viewport { width: device-width;}

Hi Phetolo

Once again thank you for the opportunity provide to Nedbank to participate in your hedging requirements.

As per our discussion, in order that we are able to close the loop on the transaction completed it would be most appreciated if you would share with us the special authority granted you to go ahead with the hedging.

We are still awaiting the signed confirmations – but are aware that some people are travelling

Additionally our compliance is requesting a letter that essentially states that Transnet has looked at the transaction and the rates concluded and that Transnet is satisfied with the pricing and value of the transaction.

For ease – essentially they are looking for something along these lines:

"In terms of the Interest rate Swap transactions entered into with Nedbank on or about 8 March 2016, I am aware that these trades priced at a pure mid-market rate of approximately 11.42% nacq. I am further aware and agree that these trades were executed at a level of 12.37% nacq – which results in a difference of 95 bps over mid-market value.

The trade numbers of the trades in question are set out below:

32538073
32539903
32538332
32539770
32537127
"

Your assistance in this matter is much appreciated

Regards
Moss

**Moss Brickman**
**Head: Balance Sheet Management – Treasury**
**Nedbank Corporate and Investment Banking**
Sixth Floor Block F Nedbank 135 Rivonia Campus 135 Rivonia Road Sandown Sandton 2196 South Africa | PO Box 1144 Johannesburg 2000 South A
t +27 (0)11 294 4488f +27 (0)86-528-0970 c +27 (0)82 900 0276 @ mossb@nedbank.co.za Website: nedbank.co.za
"Promise only what you can deliver, then deliver more than you promise"

Moss

**From:** Carol Phiri Transnet Corporate JHB [mailto:Carol.Phiri@transnet.net]
**Sent:** 16 March 2016 05:24 PM
**To:** Brickman, M. (Moss)
**Cc:** Phetolo Ramosebudi Transnet Corporate JHB
**Subject:** RE: Attached Image

Good day Moss

For ease of reference, Mr Ramosebudi has rephrased the content of his e-mail in a form of a letter for the supporting documents.

Regards

Carol

**From:** Brickman, M. (Moss) [mailto:MossB@Nedbank.co.za]
**Sent:** 16 March 2016 04:32 PM
**To:** Phetolo Ramosebudi Transnet Corporate JHB
**Cc:** Carol Phiri Transnet Corporate JHB
**Subject:** RE: Attached Image

Appreciated
Moss

**From:** Carol Phiri Transnet Corporate JHB [mailto:Carol.Phiri@transnet.net] **On Behalf Of** Phetolo Ramosebudi Transnet Corporate JHB
**Sent:** 16 March 2016 04:15 PM
**To:** Phetolo Ramosebudi Transnet Corporate JHB; Brickman, M. (Moss)
**Cc:** Carol Phiri Transnet Corporate JHB
**Subject:** RE: Attached Image

Good day Moss

Please find attached approval for the transaction. This copy replaces the one which was sent by Phetolo earlier.

Regards

Carol

**From:** Phetolo Ramosebudi Transnet Corporate JHB
**Sent:** 16 March 2016 03:14 PM
**To:** MossB@Nedbankcapital.co.za
**Subject:** FW: Attached Image

Hi Moss,

In terms of the Interest rate Swap transactions entered into with Nedbank on or about 8 March 2016, I am aware that these trades priced at a pure mid-market rate of approximately 11.42% nacq. I am further aware and agree that these trades were executed at a level of 12.37% nacq – which results in a difference of 95 bps over mid-market value.

Furthermore attach is the approval for the transactions. Please note that the second subsequent transaction for the CPI loan novation as per the GCE approval no fees for Regiments as the 1064 locomotives agreements.

Kind Regards
Phetolo

**From:** "Phetolo Ramosebudi Transnet Corporate JHB" [mailto:Phetolo.Ramosebudi@transnet.net]
**Sent:** 16 March 2016 03:06 PM
**To:** Phetolo Ramosebudi Transnet Corporate JHB
**Subject:** Attached Image


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**Kanabo Skhosana**

| | |
|---|---|
| **From:** | Phetolo Ramosebudi Transnet Corporate JHB <Phetolo.Ramosebudi@transnet.net> |
| **Sent:** | Thursday, 24 March 2016 12:06 PM |
| **To:** | 'Brickman, M. (Moss)' |
| **Cc:** | eric@tcp.co.za |
| **Subject:** | RE: Transnet Indicative pricing |

Dear Moss,

Thanks for the indicative pricing below. However we have appointed the advisors as previously traded with Nedbank, and would prefer that you trade with the advisor on the deal as requested by Transnet and Advisor.

Thanks

**From:** Brickman, M. (Moss) [mailto:MossB@Nedbank.co.za]
**Sent:** 24 March 2016 11:52 AM
**To:** Phetolo Ramosebudi Transnet Corporate JHB
**Cc:** eric@tcp.co.za
**Subject:** FW: Transnet Indicative pricing

Hi Phetolo

Nedbank Risk are struggling with the overall transaction and structure but are aware of Transnet's requirement for a hedge

As per the below email Nedbank are able to provide the hedge directly to Transnet

Regards
Moss

**From:** Lippiatt, C. (Chantal)
**Sent:** 24 March 2016 11:28 AM
**To:** Naidoo, J. (Jayendran); Brickman, M. (Moss); Kilroe, A. (Andrew)
**Cc:** Fuller-Good, R. (Roger); Erasmus, T. (Thea); Etsane, M. (Mak); Mentis, P. (Petros)
**Subject:** Transnet Indicative pricing

Hi All

At the moment it has been resolved that if Transnet wishes to tradetoday we can do so by facilitating a stand-alone arm's length transaction with Transnet directly:

The indicative pricing is as per below:

Transnet receives 6m Jibar
Transnet pays fixed 12.27% nacs
The fixed rate has been made up as follows:

| | |
|---|---|
| Mid rate (inclusive of fee) | 10.84% |
| Adjustment due to 3m/6m basis (mid) | 0.55% |
| Liquidity and bid offer 3m/6m basis | 0.20% |
| Execution charges (Spread and liquidity) | 0.40% |

| | |
|---|---|
| CVA, FVA and Margin | 0.28% |
| All-in hedge rate | 12.27% |

| | | | |
|---|---|---|---|
| 26-Feb-15 | ZAR | 6 991 500 000.00 | PRINCIPAL |
| 17-Aug-15 | ZAR | -288 016 087.56 | INTEREST |
| 16-Feb-16 | ZAR | -309 625 569.00 | INTEREST |
| 15-Aug-16 | ZAR | -306 241 683.00 | INTEREST |
| 15-Feb-17 | ZAR | -311 317 512.00 | INTEREST |
| 15-Aug-17 | ZAR | -306 241 683.00 | INTEREST |
| 15-Feb-18 | ZAR | -311 317 512.00 | INTEREST |
| 15-Aug-18 | ZAR | -306 241 683.00 | INTEREST |
| 15-Aug-18 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Feb-19 | ZAR | -295 751 636.40 | INTEREST |
| 15-Feb-19 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Aug-19 | ZAR | -275 617 514.70 | INTEREST |
| 15-Aug-19 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 18-Feb-20 | ZAR | -268 934 339.85 | INTEREST |
| 18-Feb-20 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 17-Aug-20 | ZAR | -244 993 346.40 | INTEREST |
| 17-Aug-20 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 16-Feb-21 | ZAR | -232 219 176.75 | INTEREST |
| 16-Feb-21 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 16-Aug-21 | ZAR | -214 369 178.10 | INTEREST |
| 16-Aug-21 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Feb-22 | ZAR | -201 256 619.85 | INTEREST |
| 15-Feb-22 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Aug-22 | ZAR | -183 745 009.80 | INTEREST |
| 15-Aug-22 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Feb-23 | ZAR | -171 224 631.60 | INTEREST |
| 15-Feb-23 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Aug-23 | ZAR | -153 120 841.50 | INTEREST |
| 15-Aug-23 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Feb-24 | ZAR | -140 092 880.40 | INTEREST |
| 15-Feb-24 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Aug-24 | ZAR | -123 173 450.40 | INTEREST |
| 15-Aug-24 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 18-Feb-25 | ZAR | -110 737 669.35 | INTEREST |
| 18-Feb-25 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 15-Aug-25 | ZAR | -90 349 756.20 | INTEREST |
| 15-Aug-25 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 17-Feb-26 | ZAR | -78 675 349.50 | INTEREST |
| 17-Feb-26 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 17-Aug-26 | ZAR | -61 248 336.60 | INTEREST |
| 17-Aug-26 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 16-Feb-27 | ZAR | -46 443 835.35 | INTEREST |
| 16-Feb-27 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 16-Aug-27 | ZAR | -30 624 168.30 | INTEREST |

| | | | |
|---|---|---|---|
| 16-Aug-27 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |
| 22-Feb-28 | ZAR | -16 073 458.50 | INTEREST |
| 22-Feb-28 | ZAR | -349 575 000.00 | REPAY PRINCIPAL |

Please note the above execution may have to be manged very carefully and is subject to our traders finding suitable liquidity.

Regards
Chantal

Chantal Lippiatt
Sales and Structuring | Markets | Nedbank Corporate and Investment Banking
Sixth Floor Block F Nedbank 135 Rivonia Campus 135 Rivonia Road Sandown Sandton 2196 South Africa | PO Box 1144 Johannesburg 20(
t +27 (0)11294 4661f +27 (0)86 505 7902 @ Chantalli@nedbank.co.za
Website: nedbank.co.za

**Kanabo Skhosana**

**From:** Brickman, M. (Moss) <MossB@Nedbank.co.za>
**Sent:** Tuesday, 22 March 2016 2:02 PM
**To:** Phetolo Ramosebudi Transnet Corporate JHB
**Subject:** RE: Attached Image
**Attachments:** Scan_Phetolo Ramosebudi Transnet Corporate JHB_20160316-151024_3262_001.pdf

Apology
Left off the attachment

**From:** Brickman, M. (Moss)
**Sent:** 22 March 2016 02:00 PM
**To:** 'Phetolo Ramosebudi Transnet Corporate JHB'
**Subject:** RE: Attached Image

Phetolo

Will action

Some assistance please:

In the last set of documents you sent through (see attached) – the page 6 is missing
Jumps from clause 28 to clause 35
Please would you scan and send page 6 through for completeness

Appreciated
Moss

**From:** Phetolo Ramosebudi Transnet Corporate JHB [mailto:Phetolo.Ramosebudi@transnet.net]
**Sent:** 22 March 2016 12:29 PM
**To:** Brickman, M. (Moss)
**Subject:** RE: Attached Image

Dear Moss,

May you kindly send me the refreshed settlement instruction to book the transaction. I am afraid that if we wait too long is a long weekend coming again.

Regards

**From:** Brickman, M. (Moss) [mailto:MossB@Nedbank.co.za]
**Sent:** 16 March 2016 05:38 PM
**To:** Carol Phiri Transnet Corporate JHB
**Cc:** Phetolo Ramosebudi Transnet Corporate JHB
**Subject:** RE: Attached Image

Thank you

Have a pleasant evening

Regards

TRANSNET

Mr. Moss Brickman
135 Rivonia Road
Sandown
Sandton
2196

Dear Moss

In terms of the Interest rate Swap transactions entered into with Nedbank on or around 8 March 2016, Transnet is aware that these trades were priced at a pure mid-market rate of approximately 11.42% nacq. Our team is further aware and agree that these trades were executed at a level of 12.37% nacq – which results in a difference of 95 bps over mid-market value.

Furthermore, a copy of the approval for the transactions was sent to you on 16 March 2016. Please note that the second subsequent transaction for the CPI loan novation as per the GCE approval detailing no fees for Regiments as the 1064 locomotives agreements.

Kind Regards

Phetolo Ramosebudi
Group Treasurer
Date: 16/03/2016

# ANNEXURE "MSM 26"

TRANSNET

## MANDATE FOR DOMESTIC MARKET TRADERS

The employees of Transnet SOC Ltd indicated below are hereby authorised, in the normal course of their employment, to enter into capital and money market transactions and more specifically to participate and deal in bonds listed on the Johannesburg Stock Exchange, repurchase agreements, money market instruments and interest rate derivatives on behalf of Transnet SOC Ltd, within the limits set out in the Delegation of Authority Framework and/or the Financial Risk Management Framework as approved by the Transnet Executive Committee or Board of Directors.

| NAME | IDENTITY NO. | SIGNATURE |
|---|---|---|
| Reon Louw | 660917 5025 081 | |
| Csaba Nagy | 600714 5005 087 | |
| Devanathan Sathee | 730826 5012 088 | |
| Mark Tannous | 771215 5142 089 | |

THUS done and signed at JOHANNESBURG in accordance with the Transnet Delegation of Authority Framework.

Name: Mathane Makgatho
Title: Group Treasurer
Date:

Name: Anoj Singh
Title: Group Chief Financial Officer
Date: 21\01\14.

TRANSNET

## MANDATE FOR DOMESTIC MARKET TRADERS

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| NAME | IDENTITY NO. | SIGNATURE |
|---|---|---|
| Reon Louw | 660917 5025 081 | |
| Csaba Nagy | 600714 5005 087 | |
| Devanathan Sathee | 730826 5012 088 | |
| Mark Tannous | 771215 5142 089 | |

THUS done and signed at JOHANNESBURG in accordance with the Transnet Delegation of Authority Framework.

Name: Phetolo Ramosebudi
Title: Group Treasurer
Date: 12/05/2015

Name: Anoj Singh
Title: Group Chief Financial Officer
Date: 12/05/15

TRANSNET

**MANDATE FOR DOMESTIC MARKET TRADERS**

The employees of Transnet SOC Ltd indicated below are hereby authorised, in the normal course of their employment, to enter into capital and money market transactions and more specifically to participate and deal in bonds listed on the Johannesburg Stock Exchange, repurchase agreements, money market instruments, interest rate and index linked derivatives on behalf of Transnet SOC Ltd, within the limits set out in the Delegation of Authority Framework and/or the Financial Risk Management Framework as approved by the Transnet Executive Committee or Board of Directors.

| NAME | IDENTITY NO. | SIGNATURE |
| --- | --- | --- |
| Reon Louw | 660917 5025 081 | |
| Csaba Nagy | 600714 5005 087 | |
| Devanathan Sathee | 730826 5012 088 | |
| Mark Tannous | 771215 5142 089 | |

THUS done and signed at **JOHANNESBURG** in accordance with the Transnet Delegation of Authority Framework.

.............................................
Name: Phetolo Ramosebudi
Title: Group Treasurer
Date: 26/04/2016

.............................................
Name: Garry Pita
Title: Group Chief Financial Officer
Date: 08/05/16

Transnet SOC Ltd
Registration Number
1990/000900/30

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150 Commissioner
Street
Johannesburg
2001

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South Africa, 2122
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F +27 11 308 2638

TRANSNET

**MANDATE FOR DOMESTIC MARKET TRADERS**

The employees of Transnet SOC Ltd indicated below are hereby authorised, in the normal course of their employment, to enter into capital and money market transactions and more specifically to participate and deal in bonds listed on the Johannesburg Stock Exchange, repurchase agreements, money market instruments, interest rate and index linked derivatives on behalf of Transnet SOC Ltd, within the limits set out in the Delegation of Authority Framework and/or the Financial Risk Management Framework as approved by the Transnet Executive Committee or Board of Directors.

| NAME | IDENTITY NO. | SIGNATURE |
|---|---|---|
| Reon Louw | 660917 5025 081 | |
| Csaba Nagy | 600714 5005 087 | |
| Devanathan Sathee | 730826 5012 088 | |
| Mark Tannous | 771215 5142 089 | |

THUS done and signed at **JOHANNESBURG** in accordance with the Transnet Delegation of Authority Framework.

.............................................

Name: Phetolo Ramosebudi
Title: Group Treasurer
Date:

.............................................

Name: Garry Pita
Title: Group Chief Financial Officer
Date: 13/2/17

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner
Street
Johannesburg
2001

P.O. Box 72501
Parkview, Johannesburg
South Africa, 2122
T +27 11 308 3001
F +27 11 308 2638

TRANSNET

## MANDATE FOR DOMESTIC MARKET TRADERS

The employees of Transnet SOC Ltd indicated below are hereby authorised, in the normal course of their employment, to enter into capital and money market transactions and more specifically to participate and deal in bonds listed on the Johannesburg Stock Exchange, repurchase agreements, money market instruments, interest rate and index linked derivatives on behalf of Transnet SOC Ltd, within the limits set out in the Delegation of Authority Framework and/or the Financial Risk Management Framework as approved by the Transnet Executive Committee or Board of Directors.

| NAME | IDENTITY NO. | SIGNATURE |
|---|---|---|
| Reon Louw | 660917 5025 081 | |
| Csaba Nagy | 600714 5005 087 | |
| Devanathan Sathee | 730826 5012 088 | |

THUS done and signed at **JOHANNESBURG** in accordance with the Transnet Delegation of Authority Framework.

..................................................
Name: Phetolo Ramosebudi
Title: Group Treasurer
Date: 12/6/17

..................................................
Name: Garry Pita
Title: Group Chief Financial Officer
Date: 14/6/17

# ANNEXURE "MSM 27"

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# 1064 Timelines

## PROCUREMENT

- Business case value R38,6bn
- Contracted value R54,4bn
- Contingency R4,5bn
- Relocation Payments – CNR R647,2m & BT R618,5m

Breakdown:

- CSR - 359 locos – R19,9bn
- BT - 240 locos – R14,4bn
- CNR - 232 locos – R10,9bn
- GE - 233 locos – R9,3bn

## LOCO ADVISORY

- LOI issued to McKinsey consortium in December 2012 as part of confined tender process
- Consortium composition changes twice as a result of potential conflicts – Letsema and Nedbank replaced by Regiments
- McKinsey largely worked in Business Case with TFR and GCIA
- February 2014 McKinsey ceded contract to Regiments
- Scope increased several times from original value of R35m to R265m between Dec 2012 and April 2015 (excl legal fees)

## FUNDING

- CDB Loan ($1,5bn)
  - R166m Regiments success fee
- ZAR Club Loan (R12bn)
  - Trillian lead arranger fee R82m (excl VAT)
- Interest rate swaps of R23,3bn in total
  - Incremental interest estimated at R600m per annum
  - Regiments fee (TSDBF) R227m
  - Regiments fee (Nedbank) R200m

**May - July 2012** (McKinsey&Company)

- Advisory confined tender May 2012
- 1064 RFP issued July 2012

**Dec 2012** (McKinsey&Company)

- Advisory LOI issued to consortium for R35m / 9 month
- Letsema replaced by Regiments

**Nov 2013** (REGIMENTS)

- CFO approves that Regiments replaces Nedbank in Consortium

**Feb 2014** (REGIMENTS)

- Advisory scope increases to R51,2m
- McKinsey ceded consortium to Regiments

**April – May 2014** (REGIMENTS)

- April 2014 - Business Case R38,6bn
- April 2014 - Advisory scope increase for Regiments to R119,1m
- May 2014 – Contract award business case R54,4bn

**April – July 2015** (REGIMENTS)

- April 2015 -Advisory scope increases to R265,5m
- April 2015 - JP Morgan appointed to execute ZAR Club Loan
- July 2015- Regiments CDB success fee R166m

**Oct – Nov 2015** (TRILLIAN)

- Oct 2015 – ADC approve JP Morgan replacement with Trillian
- Nov 2015 – Trillian Engagement letter

**Dec 2015** (Nedbank, TRILLIAN)

- 1 Dec 2015 – R4,5bn of ZAR Club traded
- 4 Dec –R4,5bn Nedbank Interest rate Swap
- 14 Dec – R82m Trillian payment

**March 2016** (TRILLIAN, Nedbank, REGIMENTS)

- 1-4 March 2016 – R7,5bn of ZAR Club traded
- 7 March –R7,5bn Nedbank Interest rate Swap
- 20 basis points built into fixed rate for Regiments payments (R225m over life)

**April 2016** (TSDBF, REGIMENTS)

- 30 March 2016 – R6,9bn TSDBF interest rate swap
- 8 April 2016 – R4,3bn TSDBF interest rate swap
- 20 basis points built into fixed rate for Regiments payments (R160m over life)

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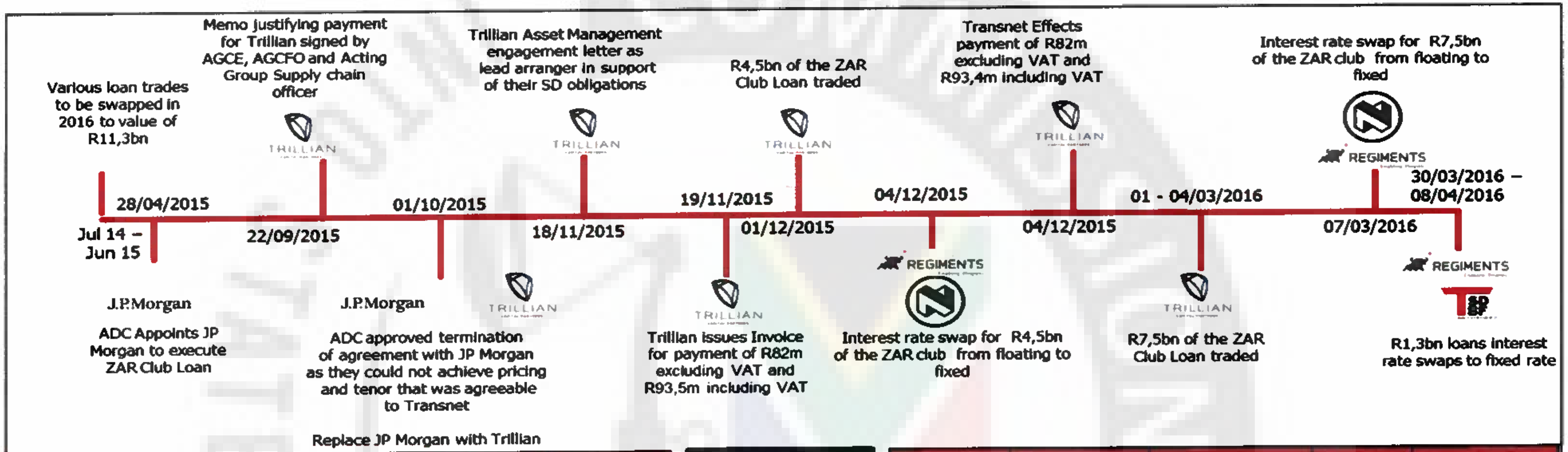
# ZAR Club Loan And Nedbank / TSDBF Interest Rate Swaps




| Original Loan Trade Date | Loan Amount | Lender | Floating Rate | Maturity Date |
|---|---|---|---|---|
| 1 December 2015 | R1 500 000 000 | Absa | 9,12% | 2 December 2030 |
| 1 December 2015 | R1 500 000 000 | Bank Of China | 9,22% | |
| 1 December 2015 | R500 000 000 | Nedbank | 9,03% | |
| 1 December 2015 | R500 000 000 | Future growth | 9,03% | |
| 1 December 2015 | R500 000 000 | Omsfin | 9,03% | |

| Original loan Trade Date | Loan Amount | Lender | Floating Rate | Maturity Date |
|---|---|---|---|---|
| 1 March 2016 | R1 500 000 000 | Absa | 9,62% | 2 December 2030 |
| 1 March 2016 | R1 500 000 000 | Bank Of China | 9,72% | |
| 3 March 2016 | R2 500 000 000 | Nedbank | 9,53% | |
| 4 March 2016 | R1 000 000 000 | Future growth | 9,53% | |
| 4 March 2016 | R1 000 000 000 | Omsfin | 5,53% | |

| Original Trade Date | Loan Amount | Lender | Floating | Maturity Date |
|---|---|---|---|---|
| 26-Feb-15 | R6 991 500 000 | EDC Investec | 9,90% | 22-Feb-28 |
| 18-Jul-14 | R1 604 166 667 | Libfin | 8,99% | 19-Jul-32 |
| 04-Jun-15 | R1 000 000 000 | Omsfin/Omsalga | 9,29% | 31-Mar-33 |
| 21-Aug-14 | R1 700 000 000 | Standard Bank | 8,89% | 21-Aug-24 |

Nedbank Facilitate Interest Rate Swaps

TSDBF Facilitate Interest Rate Swaps

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 4 Dec 2016 5 | R1 500 000 000 | Absa | 11,83% | 2 December 2030 |
| | R1 500 000 000 | Bank Of China | 11,83% | |
| | R500 000 000 | Nedbank | 11,83% | |
| | R500 000 000 | Future growth | 11,83% | |
| | R500 000 000 | Omsfin | 11,83% | |

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 7 March 2016 | R1 500 000 000 | Absa | 12,27% | 2 December 2030 |
| | R1 500 000 000 | Bank Of China | 12,27% | |
| | R2 500 000 000 | Nedbank | 12,27% | |
| | R1 000 000 000 | Future growth | 12,27% | |
| | R1 000 000 000 | Omsfin | 12,27% | |

| Swap date | Loan Amount | Lender | Fixed Rate | Maturity Date |
|---|---|---|---|---|
| 30-Mar-16 | R6 991 500 000 | EDC Investec | 12,07% | 22-Feb-28 |
| 08-Apr-16 | R1 604 166 667 | Libfin | 11,15% | 19-Jul-32 |
| 08-Apr-16 | R1 000 000 000 | Omsfin/Omsalga | 11,15% | 31-Mar-33 |
| 08-Apr-16 | R1 700 000 000 | Standard Bank | 11,15% | 21-Aug-24 |

# Funding directly linked to 1064 programme

| Supplier | # of Locos | Lender | Value @ Inception | Interest rate @ inception | Tenure | Drawdown to date | Balance |
|---|---|---|---|---|---|---|---|
| CNR/CSR | 232/359 | **China Development Bank** | **US$1 500 000 000** | 3m Libor 0.28 + 257 bps | 15 | US$1 044 000 000 | US$456 000 000 |
| CNR/CSR | 232/359 | **Bank of China** (Portion of the ZAR Club Loan to finance CNR & CSR locos) | **R3,000,000,000** | 3m Jibar 6.34 + 270 bps | 15 | R3,000,000,000 | - |
| GE | 233 | US Exim Guaranteed Facility | **R5,700,000,000** | 3m Jibar 7.32 + 195 bps | 13 | R5,700,000,000 | - |
| | | **- Standard Bank** | R2,250,000,000 | | | | |
| | | **- ABSA** | R2,250,000,000 | | | | |
| | | **- OMSFIN & JP Morgan** | R1,200,000,000 | | | | |
| BT | 240 | **Export Development Canada & Investec** | **R6,992,000,000** | 6m Jibar 6.72 + 200bps | 13 | R6,992,000,000 | - |
| | | **KFW Development Bank** | **R2,760,000,000** | 10.35% | 15 | R2,760,000,000 | - |

# R12 Billion Club Loan

| Lender | Value @ Inception (Rand) | Tenure | interest rate @ Inception | Drawn to date (Rand) | Balance |
|---|---|---|---|---|---|
| Bank of China | 3 000 000 000 | 15 | 3m Jibar 6.34 + 270 bps | 3 000 000 000 | - |
| ABSA | 3 000 000 000 | 15 | 3m Jibar 6.34 + 260 bps | 3 000 000 000 | - |
| Nedbank | 3 000 000 000 | 15 | 3m Jibar 6.34 + 270 bps | 3 000 000 000 | - |
| Futuregrowth | 1 500 000 000 | 15 | 3m Jibar 6.34 + 270 bps | 1 500 000 000 | - |
| OMSFIN | 1 500 000 000 | 15 | 3m Jibar 6.34 + 270 bps | 1 500 000 000 | - |
| TOTAL RAISED FROM CLUB LOAN: | 12 000 000 000 | | DRAWDOWN TO DATE: | 12 000 000 000 | |

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# Costs for Loan Funding related to 1064 programme

| | Currency | Loan Amount | Upfront Fee (excluding VAT) | | Mandated Lead Arranger Fee | | Exposure Fee | Commitment Fees Paid | Agency Fee | Advisory Fee (excluding VAT) | Advisor |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **KfW Development Bank** | **ZAR** | **2,760,000,000** | **0.45%** | **12,420,000** | | | | | | - | |
| **EDC/Investec** | **ZAR** | **6,991,500,000** | **0.45%** | **31,461,750** | | | | **1,069,986** | | - | |
| **ZAR Club** | **ZAR** | **12,000,000,000** | **0.30%** | **36,000,000** | - | - | - | **3,933,163** | - | **82,000,000** | **Trillian** |
| * ABSA | ZAR | 3,000,000,000 | 0.30% | 9,000,000 | | | | 475,520 | | | |
| * Nedbank | ZAR | 3,000,000,000 | 0.30% | 9,000,000 | | | | 2,108,219 | | | |
| * OMSFIN | ZAR | 1,500,000,000 | 0.30% | 4,500,000 | | | | 932,301 | | | |
| * Futuregrowth | ZAR | 1,500,000,000 | 0.30% | 4,500,000 | | | | - | | | |
| Bank of China | ZAR | 3,000,000,000 | 0.30% | 9,000,000 | | | | 417,123 | | | |
| Advisory Fee | | | | | | | | | | 82,000,000 | |
| **US Exim** | **ZAR** | **5,700,000,000** | | | **0.20%** | **11,400,000** | **252,057,533** | **21,092,984** | **613,800** | - | |
| ABSA | ZAR | 2,250,000,000 | | | 0.20% | 4,500,000 | | | | | |
| Standard Bank | ZAR | 2,250,000,000 | | | 0.20% | 4,500,000 | | | | | |
| OMSFIN | ZAR | 1,200,000,000 | | | 0.20% | 2,400,000 | | | | | |
| US Exim | ZAR | - | | | | | 252,057,533 | 21,092,984 | 613,800 | | |
| **TOTAL ZAR FUNDING** | | **27,451,500,000** | | | | | | | | | |
| **China Development Bank USD 1.5bn facility** | **USD** | **1,044,000,000** | **1.18%** | **USD 17700000** | | | | **ZAR 330,801,978** | | **ZAR 166,000,000** | **Regiments** |
| **TOTAL USD FUNDING** | | **1,044,000,000** | value drawn down to date from total facility of R1.5 bilion | | | | | | | | |

* *Not linked to Loco funding*

= fees considered unecessary as Transnet has the expertise to execute

# Nedbank Interest Rate Swaps

| Lender | Original Loan (Rand) |
|---|---|
| ABSA | 3 000 000 000 |
| Bank of China | 3 000 000 000 |
| Nedbank | 3 000 000 000 |
| Futuregrowth | 1 500 000 000 |
| Omsfin | 1 500 000 000 |
| TOTAL: | 12 000 000 000 |

| First Drawdown | | | | Swap | | |
|---|---|---|---|---|---|---|
| Lender | Drawdown Amount (Rand) | Date | Floating Rate (%) | Fixed Rate (%) | Date | Additional Margin |
| ABSA | 1 500 000 000 | 1 December 2015 | 9,12 | 11,83 | 4 December 2015 | 2,71 |
| Bank of China | 1 500 000 000 | 1 December 2015 | 9,22 | 11,83 | 4 December 2015 | 2,61 |
| Nedbank | 500 000 000 | 1 December 2015 | 9,03 | 11,83 | 4 December 2015 | 2,8 |
| Futuregrowth | 500 000 000 | 1 December 2015 | 9,03 | 11,83 | 4 December 2015 | 2,8 |
| Omsfin | 500 000 000 | 1 December 2015 | 9,03 | 11,83 | 4 December 2015 | 2,8 |
| TOTAL | 4 500 000 000 | | | | | |

| Second Drawdown | | | | Swap | | |
|---|---|---|---|---|---|---|
| Lender | Drawdown Amount (Rand) | Date | Floating Rate (%) | Fixed Rate (%) | Date | Additional Margin |
| ABSA | 1 500 000 000 | 1 March 2016 | 9,62 | 12,27 | 7 March 2016 | 2,65 |
| Bank of China | 1 500 000 000 | 1 March 2016 | 9,72 | 12,27 | 7 March 2016 | 2,55 |
| Nedbank | 2 500 000 000 | 3 March 2016 | 9,53 | 12,27 | 7 March 2016 | 2,74 |
| Futuregrowth | 1 000 000 000 | 4 March 2016 | 9,53 | 12,27 | 7 March 2016 | 2,74 |
| Omsfin | 1 000 000 000 | 4 March 2016 | 9,53 | 12,27 | 7 March 2016 | 2,74 |
| TOTAL | 7 500 000 000 | | | | | |

GRAND TOTAL: 12 000 000 000

# TSDBF Interest Rate Swaps

| Lender | Loan Amount (Rand) | Date | Floating Rate (%) | Swapped Rate - Fixed Rate (%) | Date | Additional Margin |
|---|---|---|---|---|---|---|
| Export Development Canada (EDC)/Investec | 6 991 500 000 | 26 February 2015 | 9,9 | 12,07 | 30 March 2016 | 2,17 |
| Libfin | 1 604 166 667 | 18 July 2014 | 8,99 | 11,15 | 8 April 2016 | 2,16 |
| Omsfin/Omsalga | 1 000 000 000 | 4 June 2015 | 9,29 | 11,15 | 8 April 2016 | 1,86 |
| Standard Bank | 1 700 000 000 | 21 August 2014 | 8,89 | 11,15 | 8 April 2016 | 2,26 |
| TOTAL | 11 295 666 667 | | | | | |

# Costs Paid for Nedbank / TSDBF Interest Rate Swaps

| Lender | Loan Amount (R/ million) | Loan Date | Loan Rate | Swap rate | Swap Date | Additional Interest Paid to 25 Feb 2019 | Projected Additional Interest to Maturity | 20 BP included in additional interest | 20 BP included in additional projected interest | Swap Counterparty |
|---|---|---|---|---|---|---|---|---|---|---|
| Absa- Club Loan Drawdown 1 | R 1,500m | 01-Dec-15 | 9.12% | 11.83% | 04-Dec-15 | R 93m | R 98m | R 9m | R 17m | Nedbank |
| Bank Of China- Club Loan Drawdown 1 | R 1,500m | 01-Dec-15 | 9.22% | 11.83% | 04-Dec-15 | R 90m | R 111m | R 12m | R 18m | Nedbank |
| Nedbank- Club Loan Drawdown 1 | R 500m | 01-Dec-15 | 9.03% | 11.83% | 04-Dec-15 | R 31m | R 36m | R 3m | R 7m | Nedbank |
| Futuregrowth- Club Loan Drawdown 1 | R 500m | 01-Dec-15 | 9.03% | 11.83% | 04-Dec-15 | R 31m | R 36m | R 3m | R 7m | Nedbank |
| Omsfin- Club Loan Drawdown 1 | R 500m | 01-Dec-15 | 9.03% | 11.83% | 04-Dec-15 | R 31m | R 36m | R 3m | R 7m | Nedbank |
| ABSA - Club Loan Drawdown 2 | R 1,500m | 01-Mar-16 | 9.62% | 12.27% | 07-Mar-16 | R 101m | R 125m | R 8m | R 17m | Nedbank |
| Bank Of China - Club Loan Drawdown 2 | R 1,500m | 01-Mar-16 | 9.72% | 12.27% | 07-Mar-16 | R 99m | R 146m | R 8m | R 21m | Nedbank |
| Nedbank - Club Loan Drawdown 2 | R 2,500m | 03-Mar-16 | 9.53% | 12.27% | 07-Mar-16 | R 171m | R 234m | R 14m | R 34m | Nedbank |
| Omsfin - Club Loan Drawdown 2 | R 1,000m | 04-Mar-16 | 9.53% | 12.27% | 07-Mar-16 | R 68m | R 94m | R 6m | R 14m | Nedbank |
| Futuregrowth - Club Loan Drawdown 2 | R 1,000m | 04-Mar-16 | 5.53% | 12.27% | 07-Mar-16 | R 68m | R 94m | R 6m | R 14m | Nedbank |
| **Total for Nedbank** | **R 12,000m** | | | | | **R 785m** | **R 1,009m** | **R 72m** | **R 153m** | |
| EDC Investec | R 6,992m | 26-Feb-15 | 9.90% | 12.07% | 30-Mar-16 | R 468m | R 584m | R 40m | R 60m | TSDBF |
| Libfin | R 1,604m | 18-Jul-14 | 8.99% | 11.15% | 08-Apr-16 | R 89m | R 106m | R 8m | R 18m | TSDBF |
| Omsfin/Omsalga | R 1,000m | 04-Jun-15 | 9.29% | 11.15% | 08-Apr-16 | R 47m | R 71m | R 5m | R 14m | TSDBF |
| Standard Bank | R 1,700m | 21-Aug-14 | 8.89% | 11.15% | 08-Apr-16 | R 93m | R 70m | R 8m | R 7m | TSDBF |
| **Total for TSDBF** | **R 11,296m** | | | | | **R 697m** | **R 831m** | **R 61m** | **R 99m** | |
| **Grand Total** | **R 23,296m** | | | | | **R 1,482m** | **R 1,839m** | **R 133m** | **R 251m** | |

# ANNEXURE "MSM 28"

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Registration
Number
1990/000900/30

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TRANSNET

**MEMORANDUM**

www.transnet.net

**To:** Garry Pita,
**Group Chief Financial Officer**

**From:** Mohammed Mahomedy,
**General Manager: Group Capital Integration and Assurance**

**SUBJECT: CONFIDENTIAL LOCOMOTIVE ASSESSMENT PROJECT CLOSE-OUT**

## PURPOSE

1. The purpose of this memorandum is to highlight the benefits of the confidential project assessing the fact base of the 1064 locomotive acquisition plan, undertaken by GCIA with support from McKinsey as part of the SWAT 2 scope.

## BACKGROUND

2. Transnet signed 3 year loco acquisition contracts with 4 OEMs for 1064 locomotives at a total cost of ~R54 billion (incl. contingencies) in 2014. However, volume and EBITDA projections have significantly decreased since the contracts were signed. As a result, there is a need to ensure that the [illegible] deliveries are better aligned with its operational needs and financial capabilities.

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3. Many dependencies make it challenging for Transnet to identify the "optimal" delivery profile. These include, but are not limited to complex penalty structures between TFR, the OEMs and TE in case of formal delivery schedule renegotiation; the impact on TE's EBITDA of a modified manufacturing schedule; Transnet's ability to test and absorb the locomotives, etc.
4. As a result, an integrated GCIA and TFR team, supported by McKinsey, was set up to create a common view of the fact base regarding the 1064 programme
5. The overall effort lasted 6 (six) weeks, initial plans were to have it completed in 4 (four) weeks, however certain challenges were faced :
   i. Access and confidentiality to contracts
   ii. The need to have detailed engagements with Group Treasury
   iii. Socialisation of findings prior to the final fact base being presented

**OBSERVATIONS**

6. The capex spend required for the operationally optimised delivery schedule (~R10bn) and the current tempo (~R16bn) for 2016/17 are both in excess of the latest budget target (~R5bn) for the financial year.

7. A formal amendment of the locomotive contracts is constrained by a complex penalty structure, the elements of which are not additive. The potential auditable delay penalty claims were estimated as follows:

    i. TFR could be liable to the OEMs for F/X re-hedging costs (~R1.7-2.1bn), escalation costs (~R1.8-2.1bn) and storage costs (~R2.0-6.6bn, including interest and maintenance).

    ii. TFR could claim from the OEMs delay penalties in the range of ~ R0.4 and ~R3.5bn.

    iii. The OEMs could potentially claim delay penalties from TE, in the range of ~R0.8 and ~R2.9bn.

8. The overall EBITDA impact on TE (excluding penalties) of a delayed schedule was estimated to be close to zero over time, with a potential R0.6-2.1bn negative impact between 2015 and 2018.

9. Discussions with OEMs are already underway:

    i. OEM 1 is potentially preparing an extended delivery schedule to allow for proper prototyping and testing periods; no locomotives delivered yet.

    ii. OME 2 delivered 55 locomotives by the end of February. These had not been accepted due to a traction blower malfunction which is being resolved by the OEM.

    iii. OEM 3 delivered 14 locomotives by the end of February, which were accepted with a qua[illegible] welding not complying with Transnet require[illegible] is expected regarding the financial terms of changing the welding procedure.

    iv. OEM 4 appeared coo[illegible] providing TFR with a delivery schedule more closely aligned with TFR's operational needs; no locomotives delivered yet.

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**BENEFITS TO DATE**

**Common view of fact base**

10. Transnet now has a common view on the fact base regarding the 1064 loco programme.

11. The common view covers the contracted, current and operationally optimised delivery profiles, their cash and capital implications; the financial (i.e. penalty exposures) and legal constraints to formal contract renegotiations and the status of the 1064 programme at OEM level (paragraphs 7-11 refer).

**Alignment and syndication with TFR**

12. This work was developed by an integrated team consisting of GCIA and TFR members and international negotiation and industry experts. As a result, the findings are aligned and syndicated between Group and TFR.

**Skill transfer**

13. During the assessment of the 1064 locomotive acquisition plan a conscious effort was made to closely include in the team, several junior GCIA professionals to promote their professional development through interaction with senior Transnet staff and a set of international experts.

**RECOMMENDATION**

14. It is recommended that the GCFO note the above findings and benefits derived from the locomotive assessment project undertaken.

**Prepared by:**

Hiren Bhatt
Mega Programme Lead
Date:

**Recommended by:**

09/03/2016
Mohammed Mahomedy Acting GM.
GM: Group Capital Integration and Assurance
Date:

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**Noted by:**

→ Document only received on 27/7/16

Garry Pita
Group Chief Financial Officer
Date: 27/7/16

52-62731

McKinsey&Company

CONFIDENTIAL

Memo to
Mohammed Mahomedy, GM, Group Capital Integration & Assurance

From
David Fine, Director
Prakash Parbhoo, Principal
Kannan Lakmeeharan, Principal

29 February 2016

# Extension of support on 1064 locomotive acquisition review by 1 week

**BACKGROUND**

We refer to the scoping document dated 2 February 2016 in which we outline the support to determine what should be the way forward for Transnet regarding the 1064 locomotives programme specifically to answer the following questions:

1. What strategy should Transnet pursue given its operational, financial and legal degrees of freedom?
2. What are the key enablers required for successful implementation?
3. What will Transnet need to do to execute on the defined way forward?

We were due to complete this work on the 4th of March, however the delays in obtaining contract information as well as the [illegible] additional stakeholder engagement and analysis will mean that we expect to complete the work by the 11th of March 2016.

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**REQUIRED RESOURCES**

We have had the following team in place which should continue until the 11th of March:

- A full-time dedicated GCIA or TFR project team lead
- A part-time Transnet working team, including TFR LI, TE, Group Legal and OEM relationship managers
- A full-time McKinsey EM + 1 McKinsey team

**COMMERCIAL ARRANGEMENT**

The additional cost for the McKinsey team will be R 1,178,750 (exc. VAT) (including leadership support) which will bring the total fees to R7,072,500 (exc.VAT) for the effort.

Sincerely,

Prakash Parbhoo,
Principal

Kannan Lakmeeharan
Principal

David Fine
Director

**Approved:**

Mohammed Mahomedy, GM, Group Capital Integration & Assurance

**TRANSNET**
**PAID**

52-62731J

**CONFIDENTIAL LOCOMOTIVE ASSESSMENT PROJECT CLOSE-OUT**

**SYNDICATION OF THE FACT BASE**

---

This work was developed by an integrated team consisting of GCIA and TFR members and international negotiation and industry experts. As a result, the findings are aligned and syndicated between Group and TFR.

The following key stakeholders were both involved in the development of the fact base as well as the finalisation of the final report through detailed syndication sessions:

From TFR:

- Ravi Nair: TFR CE
- Nomfuyo Galeni: TFR CFO
- Pragasen Pillay: GM TFR
- Frikkie Harris: Engineer 1064 programme
- Lindiwe Mdletshe: TFR Supply chain
- Rita Roper: GM TFR
- Yousuf Laher: TFR Finance
- Mohammed Moola : TFR Finance
- Vivek Ramdass: TFR Legal

From Transnet Group:

- Garry Pita: Group CFO
- Danie Smith: Group Treasury
- Deva Sathee: Group Treasury

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McKinsey&Company

CONFIDENTIAL

Memo to
Mohammed Mahomedy, GM, Group Capital Integration & Assurance

From
David Fine, Director
Prakash Parbhoo, Principal
Kannan Lakmeeharan, Principal

2 February 2016

# Proposed way forward for the 1064 locomotive acquisition programme

## BACKGROUND

Transnet has 3 year 1 064 loco acquisition contracts with 4 OEMs at a total cost of ~R50 billion. However, volume and EBITDA projections have significantly decreased since the contracts were signed and Transnet needs to manage its capital spend in the next 7 years to remain within key financial metrics while meeting market demand.

## PROBLEM STATEMENT

What should be the way forward for Transnet regarding the 1064 locomotives programme?

1. What strategy should Transnet pursue given its operational, financial and legal degrees of freedom?
2. What are the key enablers required for successful implementation?
3. What will Transnet need to do to execute on the defined way forward?



## WORK DONE SO FAR

While significant work has been done regarding the 1 064 locomotive acquisition programme, it does not collectively provide insights on how Transnet should move forward as there remain a number of outstanding questions

1. TFR proposed a 5 year loco delivery schedule as part of the 2016/17 Capital Portfolio Optimisation Project. However, this new delivery schedule did not take into account contractual terms and it is not clear if and how volume projections were used to define the delivery schedule

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2. As part of **Project Tune-up**, Regiments estimated that formally renegotiating the contracts to the 5 profile proposed by TFR would cost ~R7.6 billion in penalties. Alternatively, based on contract terms, deferring loco delivery to the ~4.5year profile estimated from the current tempo would cost Transnet an additional ~R5.6bn assuming Transnet bears all costs associated with leaving the OEMs financially neutral. No assessment of the root cause of delays (i.e. TE vs OEMs) was conducted and therefore potential penalties accruing to TE were not estimated. In addition, while the project did some preliminary work in identifying potential negotiation strategies it did not define a way forward or an execution strategy
3. The McKinsey and Regiments **Integrated GFB Business Case Project** defined the total locos required based on the latest volume projections (November 2015) using TFR's proposed 5 year loco profile as an input and adjusting the runout of existing locos to meet projected demand. The project also incorporated the estimated ~R7.6 billion penalties associated with the 5 year profile in assessing overall affordability. The project did not estimate any changes in new loco requirements

It is possible that additional work on the 1 064 loco programme has been done within Transnet, however, the details are not fully transparent to all stakeholders at this point.

## PROPOSED APPROACH

We propose the following approach for Transnet to close the gap between the work done to date and the work required to define the way forward on locomotive acquisition:

1. **Create common view**: Communicate objective and work required to all stakeholders
2. **Develop and quantify options**: Define options for way forward for Transnet taking into account all degrees of freedom e.g. existing loco fleet, new loco requirements, cash flows (in and out), penalties, impact on operations etc.
3. **Prepare negotiations**: Define and det[illegible], specific to each OEM, and define all the enablers required to [illegible] on the strategy

TRANSNET
PAID

## REQUIRED RESOURCES

We believe a 5 week effort by an integrated team working simultaneously with all key players is required to complete the work to define Transnet's way forward:

- A full-time dedicated GCIA or TFR project team lead
- A part-time Transnet working team, including TFR LI, TE, Group Legal and OEM relationship managers
- A full-time McKinsey EM + 1 McKinsey team

**COMMERCIAL ARRANGEMENT**

The total cost for the McKinsey team, including leadership support would be R5,893,750 for the 5 week effort, inclusive of expenses but exclusive of VAT

Sincerely,

Prakash Parbhoo
Principal

Kannan Lakmeeharan
Principal

David Fine
Director

TRANSNET
PAID



5262731S

PR. 1053 2129

McKinsey&Company

**TAX INVOICE**

Transnet SOC Limited
44th Floor
Carlton Centre
150 Commissioner Street
Johannesburg
2195

VAT no: 4720103177

Sandown Mews East
88 Stella street
Sandown
Sandton
2196
Reg No: 2013/091251/07

VAT no: 4040268668
Tax invoice: 6466
Charge code: TRX123

26 February 2016

| | | |
|---|---|---|
| Professional fees, out of pocket expenses and Support services | ZAR | 6,181,012.00 |
| VAT of 14 % | ZAR | 865,341.68 |
| **TOTAL** | ZAR | 7,046,353.68 |

**Please Wire Transfer to:**

| | |
|---|---|
| Account Name: | McKinsey and Company Africa (Pty) Ltd |
| Account Number: | 421061812 |
| Branch Code: | 019205 |
| Bank name and address: | The Standard Bank of South Africa Ltd<br>Sandton Branch<br>156 Fifth Street<br>Sandton<br>Gauteng<br>South Africa<br>SWIFT - SBZAZAJJ |

TRANSNET
PAID

11/07/2016

11/7/2016

SIGN HERE

Please quote invoice number and charge code reference on transfer and remittance.

Please note:

Standard terms provide for invoice payment upon receipt. Interest will be charged on balances outstanding 30 days after the invoice date, at a rate of 1% per month or as otherwise agreed.

PART OF SWAT 2
PER K WEIR

21/7/16

- from which contract is this?
- I would like to see the outcome of this work and needs to be allocated to TFR ∴ needs
- Ravi/Caesar sign off.
Capital in nature ∴ to be capitalised



52Q73M

1 McKinsey&Company 1

**TAX INVOICE**

1

Transnet SOC Limited
44th Floor
Carlton Centre
150 Commissioner Street
Johannesburg
2195

VAT no: 4720103177 1

Sandown Mews East
88 Stella street
Sandown
Sandton
2196
Reg No: 2013/091251/07

VAT no: 4040268668
Tax invoice: 6466
Charge code: TRX123

26 February 2016

45-327861

| | | |
|---|---|---|
| Professional fees, out of pocket expenses and Support services | ZAR | 6,181,012.00 |
| VAT of 14 % | ZAR | 865,341.68 |
| **TOTAL** | ZAR | 7,046,353.68 |

TRANSNET
PAID

**Please Wire Transfer to:**

| | |
|---|---|
| Account Name: | McKinsey and Company Africa (Pty) Ltd |
| Account Number: | 421061812 |
| Branch Code: | 019205 |
| Bank name and address: | The Standard Bank of South Africa Ltd |
| | Sandton Branch |
| | 156 Fifth Street |
| | Sandton |
| | Gauteng |
| | South Africa |
| | SWIFT - SBZAZAJJ |

TAX INVOICE CHECK LIST TRANSNET
States "Tax Invoice"
Supplier Name & Address
Supplier VAT Number
Recipient Name & Address
Recipient VAT Number
Invoice Number
[illegible]
Description of goods/Services
[illegible]/Volume supplied
[illegible]
2L ab

Please quote invoice number and charge code reference on transfer and remittance.

Please note:

Standard terms provide for invoice payment upon receipt. Interest will be charged on balances outstanding 30 days after the invoice date, at a rate of 1% per month or as otherwise agreed.

52-627319



1000316

2016 -08- 02

# ANNEXURE "MSM 29"

Transnet SOC Ltd
Registration
Number
1990/000900/30

Carlton Centre
150 Commissioner
Str. Johannesburg
2001

P.O. Box 72501
Parkview
South Africa, 2122
T +27 11 308 2250
F +27 11 308 1269

TRANSNET

TRANSNET

**MEMORANDUM**

ww

**To:** Brian Molefe
Group Chief Executive

**From:** Anoj Singh
Group Chief Financial Officer

**SUBJECT: BENEFITS REALISED ON SWAT INITIATIVE**

**PURPOSE:**

1. The purpose of the submission is to notify the Group Chief Executive of the capital portfolio savings and benefits of the McKinsey led consortium engaged in the Capital Optimisation (SWAT) initiative.

**BACKGROUND**

2. The McKinsey led consortium have been appointed in November 2012 to assist Transnet to deliver its strategic objectives as contained in The Market Demand Strategy (MDS) and assist .

3. The McKinsey led Consortium were involved in the SWAT initiative which comprised the following objectives:
   - Capital Excellence Programme
   - De-risk the MDS capital investment portfolio;
   - Set-up of capital organization and implement platinum standard for capital;
   - Recut the portfolio (optimisation) aligning to intended business outcomes;
   - Set up project factory – a sustainable way to develop our capital project business cases;
   - Assist with identifying optimisation initiatives related to capital.

4. McKinsey and its subcontractors are as follows:
   4.1. McKinsey and Company
   4.2. Regiments
   4.3. Letsema

5. The SWAT teams were set up to enable Transnet deliver its capital project portfolio in an effective and efficient manner by ensuring that:
   5.1. Projects are aligned with the overall strategy and properly prioritized across the portfolio;
   - Each project within the portfolio is the right one, addressing the right business need, in the most cost and resource-effective way;

- Reduce the quantum of the unfunded capital by scrubbing and optimizing the portfolio;
- Each project is executed in the most effective and efficient way through application of a revised organizational structure;
- Setting up the required structures and governance to ensure capital projects are appropriately supported;
- Capital procurement is not a bottleneck to project delivery by supporting a subset of high value procurement events; and
- The right tools and systems are available in a sustainable way.

6. The McKinsey led consortium appointment was extended in November 2013 to assist in further optimisation of R110 billion and imbedding of the capital organisation principles throughout Transnet.

**DISCUSSION**

7. A number of short-term and long-term initiatives were launched to ensure Transnet delivers on MDS, and reduce the current capital by ~R40bn-R50bn in the first wave and leave Transnet with the ability to continue to drive improvements.

8. The 'project factory' was successfully set up on the 33rd Floor of the Carlton Centre. The project factory is a SA first to leverage limited resources and build a sustainable way of developing our capital project business cases. The 5 strategic mega-programmes are in the programme factory to ensure robust business case development. The Manganese Expansion Programme recently underwent the project factory process resulting in a seamless financial investment decision-making within Transnet's governance structures and the Shareholder. The Richards' Bay Expansion Programme and Iron Ore Expansion Programme are ongoing engagements within the Project Factory

9. A transparent and visible portfolio management process has been implemented for transparent. The MDS capital portfolio clearly reflects the intended business outcomes (volumes) and all of the capital and operating inputs required to achieve those outcomes. The portfolio optimization has delivered savings amounting to R42 billion to date. A dedicated portfolio management team has been established, and imbedding throughout the Operating Divisions is ongoing. More than 50% of the capital portfolio has been justified in the budget capital investment plan thus creating transparency and visibility for strategic decision making.

10. The platinum standard for capital has been developed outlining how the capital organization will be set up and the capital platinum standard implemented at Transnet – Setting up the required structures and governance to ensure capital projects are appropriately supported. In the long run this will increase our capacity by ~1200 people.

**HR IMPACT**

11. Transnet has limited resources to implement the MDS while deploying a massive capital investment of this magnitude. Transnet recognised the need to capacitate the various group functions in conjunction with the operating divisions.

12. There is a requirement to significantly increase the skills and capacity within these key areas. Transnet has created strategic plans to address the resourcing constraint over the MDS period. However, there will be a critical resource and capability gap in the short-term as Transnet ramps up its various functions and divisions.

13. Transnet has leveraged the McKinsey led consortium to bridge the capacity gap identified in the ramp-up phase of the MDS plan. This will address the urgent resourcing required in fulfilling immediate critical capabilities required to enable strategic decisions.

14. This strategy provides a risk mitigation strategy to address this constraint while leveraging the consortium's expertise to create sustainability through development of systems and processes that will enhance Transnet's capability beyond the contract period.

15. Sustainability will be achieved through process enhancement that will be imbedded in various functions and divisions, thus ensuring sustainable knowledge transfer to Transnet's employees.

**FINANCIAL BENEFITS IMPACT**

16. To achieve these objectives, the following programmes SWAT teams were launched to reduce the current capital by ~R49bn to improve affordability of the MDS portfolio. The following benefits have been realised on the various initiatives as shown in the table below: -
    16.1. Project optimisation of at least R39 billion (refer annexure A);
    16.2. Portfolio optimisation of at least R10 billion (refer annexure B).

17. This strategy continues to provide a risk mitigation strategy to address the capital affordability constraint while leveraging the consortium's expertise to create sustainability through development of systems and processes that will enhance Transnet's capability beyond the contract period.

18. The following benefits have been realised on the various initiatives as shown in the table below: -
    18.1. Eliminate capital not aligned to strategy;
    18.2. Leverage limited resources to deliver on capital;

19. These benefits will be sustainably imbedded in various functions and divisions, thus ensuring sustainable processes in Transnet. There is significant positive impact on EBITDA and also protection against cost escalation as shown below.

**BENEFITS REALISED ON SWAT INITIATIVE**

**CURRENT AND FUTURE SUSTAINABLE BENEFITS**

20. Sustainability was continuously achieved through process enhancement that was imbedded in various functions and divisions, thus ensuring sustainable knowledge transfer to Transnet's employees.
21. Process enhancements have been institutionalised with the formalisation of the following key processes: -
    - 21.1. Portfolio Management defined and implemented;
    - 21.2. Capital allocation process approved and rolled;
    - 21.3. Business case validation approved;
    - 21.4. PLP methodology standardised for Transnet;
    - 21.5. Enhanced Gate review processes approved;
    - 21.6. Integrated Stakeholder engagement model for Capital; and
    - 21.7. Capital Investment Committee mandate augmented.

22. The following benefits have been realised on the various initiatives as shown in the table below: -
    - 22.1. Development of capital organisation to deliver capital optimally;
    - 22.2. Imbedding of Platinum standard for Capital;
    - 22.3. Successful alignment of capital portfolio to strategy;
    - 22.4. Integrated Capital Governance for transparent decision-making;
    - 22.5. Capital assurance for MDS portfolio; and
    - 22.6. Robust capital project business case development.

**BUDGET IMPLICATIONS**

23. The contract costs of R154 million were budgeted within the Group Finance budget.

**RECOMMENDATION**

24. It is recommended that the Group Chief Executive note the capital portfolio savings and benefits of the McKinsey led consortium engaged in the Capital Optimisation (SWAT) initiative.

**Prepared by**

**Richman Chivinge**
Principal Specialist: Capital Integration
Date: 21-07-2014

**Recommended by/Not Recommended**

**Mohammed Mahomedy**
GM: Capital Integration
Date: 23.07.2014

**Approved by/~~Not Approved~~.**

**Anoj Singh**
Group Chief Financial Officer
Date: 08/08/14

**Noted**

**Brian Molefe**
Group Chief Executive
Date: 13.8.14.

# Appendix A: Capital Savings/deferment initiatives

TRANSNET

| | Sub-Programme | Capital Saving/ Deferment (Rbn) | Current Status | Sign off |
|---|---|---|---|---|
| Capital Allocation process | Capex optimisation (10%) | 7.0 | • Achieved and signed off during budgeting process | YES |
| | Ore Line expansion to 82.5Mtpa | 7.6 | • Identified during capital allocation | YES |
| | Swazi link | 4.5 | • Identified and signed off during budgeting process | YES |
| | NMPP Ph 2 | 2.0 | • Identified and signed off during budgeting process | YES |
| | | Signed off: 43.9 | | |

| | Sub-Programme | Capital Saving/ Deferment (Rbn) | Current Status | |
|---|---|---|---|---|
| Project Factory | Manganese | 1.9 | • Board approved Feb 2014 – optimised case | YES |
| | Richards Bay Bulk Expansion Program | 12.2 | • Capic approved Feb 2014 – deferral beyond 7-years | YES |

**Identified by:** **Vikas Sagar**
**on behalf of Consortium partners**

**Recommended by:** **Mohammed Mahomedy**
**GM: Group Capital Integration and Assurance**

**Approved by:** **Anoj Singh**
**Group Chief Financial Officer**

Mahomedy

# Appendix B: Portfolio Recut 28 billion savings identified in excess of required R10 billion

TRANSNET

Nominal R bn

Locos | Major programmes | Portfolio tail

| | | Potential value identified (Corporate Plan period) | Source of value within 7-year period | Next steps |
|---|---|---|---|---|
| 1 | 1064 loco | 10.0 | • 7 bn from procurement efficiencies<br>• 3 bn from increased efficiency and productivity gains | • Further validate exact fleet requirements by commodity/corridor/year |
| 2 | Iron ore | 2.3 | • Aligning 25% of expansion RS needs (8 bn) with the delayed port volumes (82 → 62 mtpa)<br>• Aligning port equipment to volumes (0.3 bn) | • Find options to accelerate delivery<br>• Obtain accurate fleet plan |
| | Coal | 4.2 | • Aligning 2.8 bn for coal terminal with export demand<br>• Aligning 1.4 bn in rolling stock with volumes – because of delay in 81 mtpa expansion beyond MDS | • ~~Modelling of infra breakpoints~~<br>• Find options to accelerate delivery<br>• Obtain coal terminal business case<br>• Obtain accurate fleet plan |
| | Manganese | 1.6 | • Aligning rolling stock to match latest estimated 1.5 year delay (13mt instead of 16mt via Ngqura by 2019/20) | • Find options to accelerate delivery<br>• Obtain accurate fleet plan |
| | PE Auto | 1.0 | • Determining rationale for programme during MDS period (no discernible volume impact during MDS) | • Explore possible alternative solutions<br>• Validate likelihood of FAW, second auto manufacturer coming in MDS |
| | PE/Ngqura Liquid Bulk | 5.3 | • Determining rationale for programme during MDS period (dependent on PetroSA approval; no MDS revenue contribution)<br>• A100 Tank Farm in Ngqura does not grow volumes | • Determine consequences of not starting construction within MDS period |
| | NMPP Phase 2 | 0.9 | • Determining rationale for programme during MDS period (revenue impact outside of MDS period only) | • Determine consequences of delaying construction within MDS period |
| 3 | Portfolio Tail | 2.4 | • R8 billion in non-efficiency, non-volume capex in Corporate Plan (outside of major programmes)<br>• Typical savings of 30% when scrubbed | • Set up capability in Capital Integration for "quick review" of 260+ small line items |
| | Total | 10.0 / 15.3 / 2.4 = 27.7 | | |

# ANNEXURE "MSM 30"

TRANSNET

**MEMORANDUM**

www.transnet.net

**To:** McKinsey Led Consortium

**From:** Mohammed Mahomedy
General Manager: Group Capital Integration and Assurance

**SUBJECT: BILLING AND INVOICE PROCESSING PROCESS**

**PURPOSE:**

1. The purpose of the submission is to notify the Group Chief Financial Officer of the approved billing and invoicing prcosess for McKinsey led consortium engaged in the Capital Optimisation (SWAT) initiatives.

**BACKGROUND**

2. The McKinsey led consortium have been appointed in November 2012 to assist Transnet to deliver its strategic objectives as contained in The Market Demand Strategy (MDS) and assist with Capital Optimisation of at least R49 billion.

3. McKinsey and its subcontractors are as follows:
   3.1. McKinsey and Company
   3.2. Regiments

**DISCUSSION**

4. A detailed contract management process is required to ensure that all deliverables and benefits are tracked accordingly throughout the life cycle of the engagement. Additionally, the related billing and invoicing process must be aligned to this delivery schedule.

5. A billing and invoicing process was agreed by all stakeholders of The McKinsey led consortium and is illustrated in Table 1 below.

6. All documentation must primarily be delivered to Richman Chivinge on the 33rd Floor.

7. All invoices not delivered through the agreed process and in the agreed form will not be signed.

Table 1

| Activity | Responsibility |
|---|---|
| At the beginning of every month, a work plan will be presented to the Richman Chivinge for the following initiatives: -<br>- Project Factory<br>- NMPP acceleration<br>- Manganese Support | Richman<br>Ashvin<br>Indheran |
| Proforma invoices will be prepared at the beginning of the month based on the work plan, highlighting the project billing. (see Appendix B) | Ashvin<br>Indheran |
| A draft memorandum is also drafted clearly stating the project deliverables for the invoice above, expected at month end. | Ashvin<br>Indheran |
| Once a month (First Friday of every month), there is a joint billing discussion meeting where all work plans, proforma invoices and supporting memos for the coming month are presented. | Richman<br>Ashvin<br>Indheran |
| In addition, the current month's invoices are finalized and signed off at the same meeting based on agreed completion of deliverables as per work plan. | Richman<br>Mamorena |
| The agreed format of invoices and signed memorandum is attached in Annexure A and Annexure B respectively. | Ashvin<br>Indheran |
| The consortium must provide for 10-14 days for all invoices to be processed due to the following: -<br>- Validation by the process owners<br>- Contract reconciliation<br>- Creditor reconciliation<br>- Loading of requisitions on systems<br>- Release of requisition<br>- Due consideration of diary constraints of officials releasing documentation<br>- Cashflow request<br>- Scheduling of payment when cashflow request approved | Mamorena<br>Richman<br>Mohammed |

| | |
|---|---|
| This process will ensure all invoices are paid in line with the prescribed 30 days. | |

**BUDGET IMPLICATIONS**

8. There are no budget implications.

**RECOMMENDATION**

9. It is recommended that the Group Chief Financial Officer of the approved billing and invoicing prcosess for McKinsey led consortium engaged in the Capital Optimisation initiatives.

**Prepared by**

**Richman Chivinge**
Principal Specialist: Capital Integration
Date:

**Approved by**

**Mohammed Mahomedy**
GM: Capital Integration
Date:

**Noted**

**Anoj Singh**
Group Chief Financial Officer
Date:

**Annexure A: Sample Memorandum**
31 July 2014

Anoj Singh
Group Chief Financial Officer
Transnet SOC Limited
44th Floor
Carlton Centre
150 Commissioner Street
Johannesburg

CC: Mohammed Mahomedy

Dear Anoj,

Please find attached invoice 5756, issued on 31 July 2014 for our professional fees and out of pocket expenses (@15%) and support services for the period 01 July 2014 to 31 July 2014 relating to our work on Manganese owners team support. This engagement was requested by Transnet in your letter to McKinsey (David Fine) issued on April 10th.

The value of the Manganese Execution Support initial phase until end of July 2014 is anticipated to Rxx.x million including expenses but excluding VAT, of which Rxx.x million (100%) has been invoiced to date, including this invoice.

The deliverables for this engagement are listed below, with percentage completion. This is the first invoice for this engagement.

| Deliverable | % completed as of this invoice | % completed as of previous invoice |
|---|---|---|
| Review and adjustment of EPCM tender documents | 100% | 100% |
| Develop owners team organisation structure | 100% | 100% |
| Global benchmark on contract performance bonds | 100% | 100% |
| Supply chain/procurement diagnostic with recommended changes | 100% | 60% |
| Integrated Mn control tower and governance support | 90% | 60% |
| Staffing up the owners team: define process and identify risks | 100% | 60% |
| Contracting due diligence and EPCM evaluation support | 100% | 40% |

The following bottlenecks also need to be addressed by Transnet in order to ensure continued progress:

- Urgently approve Manganese owners team budget
- Urgently approve PD formal position and get commitment from ExCo to support the PD on the integrated Manganese Programme

**Annexure B: Sample Invoice**

Transnet SOC Limited
44th Floor
Carlton Centre
150 Commissioner Street
Johannesburg
VAT Number: 4720103177
Supplier code: 72063827

McKinsey and Company
VAT no: 4710150048

Invoice: 5756

Charge code: TRX078

*Payment due within 30 days of invoice date*

31 July 2014

| | |
|---|---|
| Professional fees: 02 June 2014 to 30 June 2014 | R XX |
| Out of pocket expenses and support services | R XX |
| Sub Total | R XX |
| Vat at 14% | R XX |
| **TOTAL** | R XX |

Payment may be made by direct transfer to:
Account Name: McKinsey Incorporated
Account Number: xxxxxxxxxxxx
Branch: xxxxxxxx
Bank name and address: The Standard Bank of South Africa Ltd.
Sandton Branch
156 Fifth Street
Sandton, 2196
South Africa

Please quote invoice number and charge code reference on transfer and remittance.

# ANNEXURE "MSM 31"

**Mohammed Mahomedy Transnet Corporate JHB**

**From:** Mohammed Mahomedy Transnet Corporate JHB
**Sent:** Thursday, February 25, 2016 10:55 PM
**To:** Prakash Parbhoo/JOH/Africa/MCKINSEY <prakash_parbhoo@mckinsey. com>; 'david_fine@mckinsey. com' (david_fine@mckinsey.com); Kannan_Lakmeeharan@mckinsey.com
**Subject:** Fwd: Email address change

FYI

Sent from my iPhone

Begin forwarded message:

> **From:** Faheema Badat <FaheemaB@regiments.co.za>
> **Date:** 25 February 2016 at 22:45:04 GMT+2
> **To:** Undisclosed recipients:;
> **Subject: Email address change**
>
> Good evening
>
> I trust that you are well.
>
> This email is to inform you that my email address will be changing effective 1 March 2016 to Faheema.badat@tcp.co.za. As a consequence of the partnership reconfiguration, the Regiments Advisory Business unit will form part of a new group of companies, Trillian Capital Partners.
>
> We remain committed to exceptional client service during the transition. Please use my new email address going forward.
>
> Thank you.
>
> Kind regards,
> Faheema Badat

# ANNEXURE "MSM 32"

McKinsey&Company

Mr Garry Pita
Group Chief Financial Officer
Transnet SOC Ltd.
Carlton Centre
150 Commissioner Street
Johannesburg
2001

23 February 2016

Dear Garry,

Thank you for our meeting this week and the opportunity to reflect on the progress of our partnership with Transnet. We value our relationship with Transnet who we see as a critical enabler of the South African economy and its success will enable economic growth and improve competitiveness of South African companies. Our Partner group is committed to and passionate about this relationship. We believe we have had impact in supporting Transnet through its growth phase and now through a perfect storm of external macroeconomic factors.

We also took this opportunity to share some of our concerns around our relationship with the contracted Supplier Development partner, Regiments Capital.

Since our discussion, our Partner group has resolved to end the current relationship with Regiments Capital as soon as possible and to put greater effort into ensuring that our improved diligence process for SD partners, including Trillian Capital Partners is fully adhered to. This is informed by a number of factors including, concerns around underperformance by Regiments Capital and elements of our risk management policy.

Our risk management policy designed to maintain our hard earned reputation which we believe our clients also value. This policy takes a very conservative approach to working with persons that are politically exposed or potentially politically exposed. The recent media articles concerning Mr. Mahommed Bobat, who was, until very recently employed by Regiments Capital, were a trigger for an internal review led by our global risk and legal teams. The review underscored the risk in the current situation involving Regiments Capital and Mr. Bobat as a potentially politically exposed person as too high and resulted in the decision to end the relationship. The fact that this was the second situation in which the issue of reputational risk has arisen was a contributing factor. The previous incident involved the allegations against Mr. Niven Pillay; which resulted in him not being allowed to work on any assignments involving McKinsey.

Our risk management practices have evolved significantly in line with the accelerating changes in best-practice risk management. As part of this, our diligence processes for partnering and sub-contracting in general have been tightened to ensure, amongst others, that we are fully apprised of the composition of our partners including with respect to:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other "key man" dependencies for both the company and group companies

This is to provide assurance that, among other things, we do not have exposure to politically exposed persons.

In the case of supplier development relationships in South Africa, we are required to ensure that partner/sub-contractor meets three additional criteria:

- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome
- Capability and capacity to execute work and deliver benefits that are commensurate with the share of fees earned

We have been informed that Regiments Capital's management advisory business is transitioning ownership to Trillian Capital Partners. They will be subject to the ownership composition, management and staff composition and capability criteria above. We are not able to commence a relationship with Trillian, or any other partner/sub-contractor until these criteria have been met and approved by our global risk and legal teams.

We have met Mr. Eric Wood to discuss Regiment Capital's underperformance in the ongoing GFB and cost optimization project and our broader concerns on the scale and pace of transformation at Regiments. Specifically:

- The resourcing supplied by Regiments for the delivery of the GFB and cost optimization was well below the numbers contracted for the fee split agreed. In many instances the resources staffed on Regiments' teams were unsuitable to deliver the work. We have shared the feedback on number and quality of resources and their performance on an ongoing basis with Regiments. In addition, we have submitted an invoice of R19m, with detailed backup, to Regiments to compensate McKinsey for the additional resources we have had to deploy to fill the gaps created by under-resourcing. We have done this to ensure Transnet's success took precedence over contractual concerns
- Transformation expected at a management and technical level has not occurred at the rate that we believe is possible at Regiments. We believe this is an important obligation for a SD partner to meet

We, however, remain committed to supplier development and have worked hard to meet our SD commitments to Transnet in letter and spirit. There are numerous examples, including with Regiments, where we have been successful in building new capabilities e.g., coal line. Our experience and knowledge for creating high-quality supplier development is available to Transnet to ensure achievement of its SD objectives. Given the pace of scale of Transnet's SD objectives, you may wish to reflect on whether one SD partner alone is sufficient to deliver the desired impact. The evidence in the GFB optimization project, which required a significant and fast scale-up of resources, would argue for multiple partners. In addition to being urgent, the SD partner transition on the GFB also presents an opportunity to reassess the SD approach. We would welcome the opportunity to be a thought-partner with you on this.

Once again, we are deeply committed to the long-term success of Transnet. We look forward to the opportunity to discuss this further and its implications on current contractual commitments.

Yours sincerely

David Fine
Director

Vikas Sagar
Director

cc: Mr. Siyabonga Gama, Acting Group Chief Executive, Transnet SOC

# ANNEXURE "MSM 33"

CONFIDENTIAL

SPECIAL ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NO. 1-16/17fY HELD ON 10 May 2016

| Item No | AGENDA ITEM | RESOLUTION | RESOLUTION NUMBER | PROGRESS-TO-DATE |
|---|---|---|---|---|
| 5.1 | **National Treasury Procurement Directive** | **RESOLVED** that the Committee approved the following<br>• The impact of the recently issued National Treasury Instruction Notes on the Company's procurement process.<br>• Recommend that the Board recommends to the shareholder minister that the Board approves the following:<br>- The Company defers the implementation date of the National Treasury Instruction Notes, and continues to adhere to its current procurement policies and procedures to eliminate potential business disruptions, revenue losses and/or time lapse resulting from the expedited compliance to the National Treasury Instruction Notes 02 and 03 of 2016/17FY.<br>- Together with Transnet, DPE will engage with National Treasury on the Instruction Notes, and request reasonable time to implement same.<br><br>Further **RESOLVED** that a memorandum on the matter will be submitted to the Chairperson of the Board for onward transmission to the Shareholder Minister. | 1-16/17FY-1 | |
| 5.2 | **Cession between *Regiments* and *Trillian*** | **RESOLVED** that the Committee approved:<br>• The cession of the contract from *Regiments Capital (Pty) Ltd* to *Trillian Capital Partners (Pty) Ltd*, being satisfied that the B-BBEE status is not affected.<br>• The increase in scope for the detailed capital optimisation support services.<br>• The increase in contract value from R375m to R463.3m and the contract extension from 30 September 2016 to 31 March 2018, subject to zero budget implications for the Company. | 1-16/17FY-2 | |

# ANNEXURE "MSM 34"

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner Str. Johannesburg
2001

P.O. Box 72501
Parkview
South Africa, 2122
T +27 11 308 2526
F +27 11 308 2312

TRANSNET

**MEMORANDUM**

www.transnet.net

---

**To:** Acquisition and Disposal Committee

**From:** Siyabonga Gama, Group Chief Executive

**SUBJECT:** **REQUEST FOR APPROVAL OF A MATERIAL AMENDMENT (CESSION OF THE AGREEMENT) TO THE GFB CONTRACT - PROVISION OF PROFESSIONAL SERVICES TO SUPPORT TRANSNET IN INCREASING GENERAL FREIGHT BUSINESS WITH A BREAKTHROUGH TO REACH THE PLANNED VOLUME TARGETS (GSM/15/03/1255)**

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**PURPOSE:**

1. The purpose of this submission is to request the Acquisition and Disposal Committee to approve the following material amendment to the GFB contract:

   i. Cession of the abovementioned contract from Regiments Capital (Pty) Ltd to Trillian Capital Partners (Pty) Ltd,

   ii. Increase in scope for the detailed capital optimization support services

   iii. Increase in contract value from R375 million to R463.3 million and the extension of the end date from 30 September 2016 to 31 March 2018.

**BACKGROUND:**

2. A confine and award request for Regiments Capital (Pty) Ltd (Regiments) for the Provision of Professional Services to support Transnet SOC Ltd in increasing General Freight Business with a breakthrough to reach planned volumes for financial years 2015/2016 and 2016/2017 for R375 million was approved by the Acquisitions and Disposals Committee (ADC) on the 30 March 2015.

3. A confine and award process was followed and an RFP was issued to Regiments on 2nd April 2015 and closed on 17th April 2015.

4. A letter of intent (LOI) approved by the Acting Group Chief Executive on 20 May 2015 was issued to Regiments Capital.

5. Given the downturn in the economy Transnet introduced a number of initiatives to support EBITDA including setting up a project factory to drive specific initiatives.



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6. As a result of the above, Regiments Capital was requested to submit a revised proposal aligned to the amended scope of work to cover aspects of the above initiatives.

7. The scope of the contract was as follows:

   - Realisation of the GFB volume targets for 2015/2016 and 2016/2017.
   - Implementation of the processes and tools to ensure sustainability and capacity building; upgrade and embed operational capabilities on key flows to ensure execution as per plan (Replicate coal line approach).
   - Validate long term demand as basis for the GFB business case.
   - Build key account plans, commercial capabilities and technology solutions to drive the road to rail shift beyond 2015/2016.
   - Identification of new markets and commodities that can be leveraged to produce additional GFB volumes including new markets identified by TFR such as FMCG;
   - Sales, marketing and commercial initiatives;
   - Cost Sweep and Cash Lab;
   - Driver based budgeting;
   - Project Management Office. Initiatives being driven by the project office are":
     - Revenue and Back to Rail
       - GFB
       - Operational Improvement
       - Dedicated task force to capture opportunities
       - etc.
     - Digital customer offerings
       - Increase in ease of doing business. Track and trace, spot ordering, real-time customer feedback etc.
     - Revenue diversification
       - Africa revenue
       - Monetization of the property portfolio
       - Value added services
       - etc.
     - Revamped sales and marketing organization
       - Incentives
       - Effectiveness
       - Skills and driven sales and marketing teams
       - etc.
     - Tightening the belt

- Lowering of operational cost
- Capital portfolio optimization
- Setup Project office in the office of the GCFO
- etc.

8. The total fees with the additional scope of work amounted to a total of R375m.

9. The revised scope of work and a request to amend the split between the fixed and contingency fee was approved by the Acquisition and Disposal Committee on 5 November 2015.

10. Transnet had a contract for Provision of Capital Optimisation and Implementation Support Services. The contract value was R225 million and only R136.7 million of the contract was utilized. The majority of the work was provided Regiments as a subcontractor on the contract. The work was delivered on an "as and when" basis for capital optimization, R88.3 million was not spent when the contract came to a close. These services are still required by Transnet.

**DISCUSSION:**

11. On 15th March 2016 Regiments sent a letter to Transnet, Annexure A, whereby they stated the following:

    - The Shareholders of Regiments, being Messrs. L Nyhonyha, M Pillay and E Wood are in Process of completing the restructuring of their relationship and shareholding in Regiments

    - In terms of the restructuring, Mr. Wood will be exiting his shareholding and will acquire a shareholding in Trillian Capital (Pty) Ltd. This would result in assignment of an agreed portion of the business and a specific set of contracts, including the GFB contract, to Mr. Wood, who would then assign the same to Trillian.

    - The effective date is 1 March 2016.

    - Trillian is authorized by Regiments to execute the work and services relating to any of the contracts Regiments has directly and indirectly with Transnet.

12. On 13th April 2016 Mr. E Wood sent a letter to Transnet, Annexure B, indicating that he is ceding his rights received from Regiments to Trillian Capital Partners (Pty) Ltd (Trillian) effective 1 March 2016.

13. Transnet then initiated its vendor approval process to ensure that there is no reason why Trillian cannot be a vendor to Transnet.

14. The process indicated the following:

- The EME Affidavit provided for their level 2 BBBEE certification indicated that they are 60% black owned.

- Shareholding:
- Trillian Holdings (Pty) Ltd 60%
  - Wholly owned by Mr. Salim Essa
- Numibrite (Pty) Ltd 25%
  - Wholly owned by Mr. Eric Wood
- Daniel Benjamin Roy 1.8%
- Jan Johannes Faure 1.2%
- Aeriom Nominees (Pty) Ltd 12%
  - A holding vehicle who's shares will be transferred to staff at a later stage as part of an employee empowerment scheme

- Directors:
  - Eric Anthony Wood;
  - Tebogo Leballo; and
  - Jeffrey Irvine Afriat.

15. The company, its shareholders and directors are not on the Transnet list of excluded tenderers. The process indicated that Trillian may be appointed as suppliers to Transnet.

16. Trillian has in the past successfully provided services as a subcontractor to Regiments on various assignments to Transnet. The staff of Trillian who would be working on the services provided to Transnet were part of the business that was transferred from Regiments to Trillian and thus do have the capability and institutional knowledge of Transnet to provide the required services to Transnet.

17. Referring to point 9 and 10 above. Part of the scope of the project office is the initiative of capital optimization. There is a requirement for the scope of the contract to be increase to include the full ambit of the Capital optimization program and to increase the value of the contract by the unspent portion of the previous Capital Optimisation contract of R88.3 million and to increase the contract end date from 30 September 2016 to 31 March 2018, which is the minimum period for the embedding of the Project office and the continuing capital optimization requirements.

18. The Mckinsey portion of the work is currently being finalized, (where they were appointed as subcontractor), final payments must still be made to them.

19. Trillian will continue to complete the outstanding services on the GFB contract for the remaining unbilled portion of the contract and the increased scope and value of R88.3 million. Mckinsey will not be the subcontractor based on their request and Trillian would have to identify new subcontractors.

**DELEGATION**

20. The Transnet PPM states that where material amendments to contracts that were confined the amendment must be approved by the person or body who approved the confinement.

21. The ADC approved the confinement and thus must approve the material amendment to contract.

**FINANCIAL IMPLICATIONS**

22. The initial contract was approved at R375 million.

23. The increased scope of the capital optimization will require a further 88.3 million which was the unspent portion of the Provision of Capital Optimisation and Implementation Support Services contract.

24. The revised contract that is requested for approval is R463.3 million.

25. There is budget available for this contract.

**RECOMMENDATION:**

26. It is recommended that the Acquisition and Disposal Committee approves

    i. Cession of the abovementioned contract from Regiments Capital (Pty) Ltd to Trillian Capital Partners (Pty) Ltd,

    ii. Increase in scope for the detailed capital optimization support services

    iii. Increase in contract value from R375 million to R463.3 million and the extension of the end date from 30 September 2016 to 31 March 2018.

**Compiled by:**

**Edward Thomas**
**Acting Group Chief Supply Chain Officer**
**Date: 09 May 2016**

**Recommended**

**Garry Pita**
**Group Chief Financial Officer**
**Date: 09 May 2016**

**Recommended / Not recommended**

**Siyabonga Gama**
**Group Chief Executive**
**Date:** 2016·05·09

# ANNEXURE "MSM 35"

TRILLIAN
CAPITAL PARTNERS

Invoice: TCP-GFB01
VAT #: 4900270770
Date: 23 May 2016

Transnet Soc Ltd
35th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
VAT Number: 4720103177

Transnet GFB Breakthrough

| | |
|---|---|
| Professional fees: Work done to Date (31 Mar 2016) | R 7 000 000.00 |
| VAT (14%) | R 980 000.00 |
| Total | R 7 980 000.00 |

Banking Details:

| | |
|---|---|
| Bank: | ABSA |
| Account Holder: | Trillian Capital Partners (Pty) Ltd |
| Account Number: | 4088041167 |
| Branch: | North Towers |
| Branch Code: | 632005 |

29/6/16 29/6/16

Invoice is payable upon receipt.

TRILLIAN
CAPITAL PARTNERS

Invoice: TCP-GFB02
VAT #: 4900270770
Date: 23 May 2016

Transnet Soc Ltd
35th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
VAT Number: 4720103177

Transnet GFB Breakthrough

| | |
|---|---|
| Professional fees: Work done to Date (30 Apr 2016) | R 7 000 000.00 |
| VAT (14%) | R 980 000.00 |
| Total | R 7 980 000.00 |

Banking Details:

29/6/16 29/6/16

| | |
|---|---|
| Bank: | ABSA |
| Account Holder: | Trillian Capital Partners (Pty) Ltd |
| Account Number: | 4088041167 |
| Branch: | North Towers |
| Branch Code: | 632005 |

Invoice is payable upon receipt.

TRILLIAN
CAPITAL PARTNERS

Tax Invoice

Invoice: TCP-GFB03
VAT #: 4900270770
Date: 07 June 2016

Transnet Soc Ltd
35th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
VAT Number: 4720103177

Transnet GFB Breakthrough

| | |
|---|---|
| Professional fees: Work done to Date (31 May 2016) | R 7 000 000.00 |
| VAT (14%) | R 980 000.00 |
| Total | R 7 980 000.00 |

Banking Details:

| | |
|---|---|
| Bank: | ABSA |
| Account Holder: | Trillian Capital Partners (Pty) Ltd |
| Account Number: | 4088041167 |
| Branch: | North Towers |
| Branch Code: | 632005 |

Invoice is payable upon receipt.

29/6/16 29/6/16

TRILLIAN
CAPITAL PARTNERS

Tax Invoice

Invoice: TCPSWATII – 01
VAT #: 4900270770
Date: 07 June 2016

Transnet Soc Ltd
35th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
VAT Number: 4720103177

| | |
|---|---|
| Professional fees: Work done to close the SWAT II project | R 31 591 488.52 |
| VAT (14%) | R 4 422 808.39 |
| Total | R 36 014 296.91 |

Banking Details:

| | |
|---|---|
| Bank: | ABSA |
| Account Holder: | Trillian Capital Partners (Pty) Ltd |
| Account Number: | 4088041167 |
| Branch: | North Towers |
| Branch Code: | 632005 |

29/6/16 29/6/16

Invoice is payable upon receipt.

TRILLIAN
CAPITAL PARTNERS

# Tax Invoice

Invoice: TE2016-CP01
Vat #: 4900270770
Date: 19 February 2016

Mr Thamsanqa Jiyane
Transnet Engineering,
160 Lynette Street,
Kilner Park,
Pretoria,
0186

Vat #: 4720103177

| | |
|---|---|
| Professional fees: Financial Structuring advisory services* | R 10 000 000.00 |
| Vat (14%) | R 1 400 000.00 |
| Total | R 11 400 000.00 |

29/04/16 29/6/16

**Banking Details:**

| | |
|---|---|
| Bank: | Absa |
| Account Name: | Trillian Capital Partners (Pty) Ltd |
| Account number: | 40 8804 1167 |
| Branch code: | 632005 |

Please quote the invoice number on transfer and remittance.

Invoice is payable upon receipt.

**Financial Structuring advisory services on the fund raising required to facilitate African and global sales of rolling stock.*

TRILLIAN
CAPITAL PARTNERS

## Tax Invoice

Invoice: TCP-GCIA01
Vat #: 4900270770
Date: 20 May 2016

**Garry Pita**
**Group Chief Financial Officer**
**Transnet SOC Limited**
**44th Floor**
**Carlton Centre**
**150 Commissioner Street**
**Johannesburg**

**Vat #: 4720103177**

| | |
|---|---|
| *Professional fees: Work done to date (01 Feb – 01 Apr 2016) | R 2 145 000.00 |
| Out of Pocket expenses and support services at 10% of total bill | R 214 500.00 |
| Vat (14%) | R 330 330.00 |
| **Total** | R 2 689 830.00 |

**Banking Details:**

| | |
|---|---|
| Bank: | ABSA |
| Account Holder: | Trillian Capital Partners (Pty) Ltd |
| Account Number: | 4088041167 |
| Branch: | North Towers |
| Branch Code: | 632005 |

29/06/16

29/6/16

Please quote the invoice number on transfer and remittance.

Invoice is payable upon receipt.

* *TRXGCIA –DCT Affordability Model*

# ANNEXURE "MSM 36"

## Internal Controls with the processing of Payments

### PAYMENTS

All payments are processed through the Transnet Procurement System with the exception of the following, which will be paid using a Payment Advice method by the Corporate Centre Accounting (CCA) office:

- 3rd Party payments (i.e. Salary Related payments, IOD payments, etc.)
- Land/Cell phones
- Medical aid contributions
- Pension Fund contributions
- Insurance Claims/Premiums
- Travelling
- Bursaries
- Petty Cash
- Training
- Conferences/Seminars
- Rates and Taxes
- Assessors Fees
- Membership Fees
- SARS payments
- Donations/Sponsorships
- Selection of Enterprise Development beneficiaries
- Advertising in newspapers/magazine publications (excluding campaigns involving advertising agencies)

1. **Authorisation of Payments through the Transnet Procurement System (TPS)**

   1.1 Delegation of Authority:

- All Heads of Departments (HOD) may delegate authority to designated persons for the authorisation of payment requests, with clearly defined limits for which they take full responsibility and accountability. The delegated authority must not be more than that of the HOD.
- The HODs are responsible for maintaining and updating the list of Delegation of Authority (DOA) submitted to CCA beginning of each financial year or as and when there are changes in the departmental structure.

- The Delegated Authorities are responsible for ensuring that:
    - The payment is for the goods received/services rendered and is in terms of the appropriate authorized transaction
    - The necessary documentation is obtained, i.e. original TAX invoice that complies with the VAT legislation.
    - The payment allocation is correct and funds are available in GL , GL account and cost center number
    - Verifying with line-manager or company secretary that authorized signatories has the necessary delegated power to authorize such payments.
    - Tender procedures have been adhered to.
    - Contracts are in place to make such payments.
    - Public Finance Management Act has been adhered to.
    - The invoices agree to the purchase order, and the goods received/services rendered are that of the required standard.

1.2 Supporting documentation.

- All payments must be supported by original TAX invoices and signed by an Authorised Signatory per the DOA. If the original TAX invoice is not available, it can be substituted with an original signed copy of a TAX invoice provided by the supplier, stamped or written "certified copy".
- No changes may be made on the invoice, i.e. "tippex".
- The cost center manager is responsible for all appropriate documentation supporting the invoice such as agreements, order forms, tender documents, quotes or goods received notes.
- The goods receipt printout must accompany the invoice for submission for the payment to the Corporate Centre Accounting office.

1.3 SAP process.

- New SAP applications/changes with the required roles must be processed and signed by the cost center manager and the business process owner (BPO)
- The approval of the requisition will be in line with the DOA as supplied to Corporate Centre Accounting.
- The creation of the purchase order is done by TPS.
- The goods receipt is done by the requisitioner and all relevant supporting documents must be submitted to the Corporate Centre Accounting in line with the pre-set submission dates

after the goods receipt (GRV) is done; if documents is not received within 60 day the GRV will be reversed.

- Invoice Verification is done by Corporate Centre Accounting AP Accounting Assistant who verifies the following:
    - Correct vendor for payment.
    - Payment details (amount, beneficiary).
    - VAT allocation in terms of VAT legislation.
    - VAT documentation is correct.
    - Check if banking detail on invoice corresponds to banking details of Vendor.
- Payments are effected based on the negotiated payment terms as per the contract signed and Transnet policies.

## 2 Authorisation of Payments by means of a Payment Advice.

2.1 Authorised Signatories.

- All cost center managers may delegate authority to designated persons for the authorisation of payment requests, with clearly defined limits for which they take responsibility and accountability
- The cost center manager must forward specimen signatures of the Authorised Signatories to Corporate Centre Accounting.
- The cost center managers are responsible for maintaining and updating the list of Authorised Signatories submitted to Corporate Centre Accounting. Corporate Centre Accounting will annually request updated authorized signatures from the cost center managers.
- The Authorised Signatories are responsible for ensuring that:
    - The payment is for the goods received/services rendered and is in terms of an appropriately authorized transaction
    - The necessary documentation is obtained, i.e. original TAX invoice that complies with the VAT legislation and an approved submissions for donations.
    - The payment allocation is correct and funds are available in the GL, GL account and cost center number.
    - The payment advice is properly completed, duly authorized and the required supporting document is signed and attached,
    - Verifying with line-manager or company secretary that authorized signatories have the necessary delegated power to authorize such payments
    - Contracts are in place to make such payments

- o Public Finance Management Act has been adhered to.
- o The invoices agree to the order, and the goods received/services rendered are of the required standard.

2.2 Supporting documentation.

- All requests for payment must be supported by a properly completed payment advice and duly authorized by an Authorised Signatory
- All payment advices must be supported by original TAX invoices signed by an Authorised Signatory. If the original TAX invoice is not available, it can be substituted with an original signed copy of a VAT invoice is provided by the supplier, stamped or written "certified copy".
- No changes may be made on the invoice, i.e. "tippex" or changed amounts.
- Faxes or statements referring to invoices will not be accepted as valid supporting documentation.
- The cost center manager is responsible for all the appropriate documentation supporting the payment advice of such invoice, agreements, order forms, tender documents, quotes or goods received notes.

3 <u>Verification by AP Office when the invoice or Payment advice is received</u>

The person responsible for the duties of the cash book:

3.1 The payment advice or invoice, must be date stamped as proof of receipt.

3.2 Verify all authorized requests received for validity of:

3.1 Authorised Signatory (against register of Authorised Signatories), quotations as a temporary arrangement before an invoice is obtained or application is received.
3.2 Supporting document (valid TAX invoice, letters in the case of donations etc., registration forms in the case of people attending seminars etc.).
3.3 Payment details (amount, beneficiary) as per supporting documents
3.4 Correct GL account and cost center number.
3.5 VAT allocation in terms of VAT legislation.
3.6 All invoices will be stamped as proof that all functions were done.

4. <u>Temporary delegation</u>

If the authorized signature is not available and temporary delegation is granted to another person, please forward the temporary delegation to CCA for record keeping.

## 5. Electronic Fund Transfers (EFT)/Cheques payments

### 5.1 EFT's

5.1.1 All the payments get captured, a Payment Proposal get created and on release of the payment Proposal, the Payment Run get created which also create clearing documents in the vendor on SAP. The Payment Run creates a file that get uploaded into Standard Bank, Business on Line.

5.1.2 Payments must be verified to the supporting documentation by two senior CCA personnel who have the necessary signing authority and must sign all the documentation as evidence thereof.

5.1.3 EFT's are released for payment by two independent senior personnel "who are not the same as the cash book personnel who created the Payment Run". Before releasing the "Payment Run" they must ensure the following:

- The completeness of the supporting documentation,

### 5.2 Manual Cheques

5.2.1 Manual cheques will only be issued for Petty cash and exceptional cases as approved by the GCFO

5.2.2 Manual cheques for petty cash will only be issued to the nominated person.

5.2.3 No cash cheques will be issued

5.2.4_Authorised Signatories.

- All cost center managers may delegate authority to designated persons for the authorisation of payment requests, with clearly defined limits for which they take responsibility and accountability
- The cost center manager must forward specimen signatures of the Authorised Signatories to the Corporate Centre Accounting.

- The cost center managers are responsible for maintaining and updating the list of Authorised Signatories submitted to Corporate Centre Accounting. Corporate Centre Accounting will annually request updated authorized signatures from the cost centre managers.
- The Authorised Signatories are responsible for ensuring that:
  - The payment is for the goods received/services rendered and is in terms of an appropriately authorized transaction
  - The necessary documentation is obtained, i.e. original TAX invoice that complies with the VAT legislation, or settlement documents.
  - The payment allocation is correct and funds are available in the GL, GL account and cost center number.
  - The payment advice is properly completed, duly authorized and the required supporting document is signed and attached,
  - Checking with line-manager or company secretary that authorized signatories have the necessary delegated power to authorize such payments, and
  - Public Finance Management Act has been adhered to.
  - The invoices agree to the order or the settlement documents, and the goods/services rendered are of the required standard.
  - In the case of Petty Cash is claim in line with the Petty Cash guidelines

5.2.5 Supporting documentation.

- All requests for payment must be supported by a properly completed payment advice and duly authorized by an Authorised Signatory.
- All payment advices must be supported by original TAX invoices signed by an Authorised Signatory. If the original TAX invoice is not available, it can be substituted with an original signed copy of a VAT invoice provided by the supplier, stamped or written "certified copy".
- No changes must be made on the invoice, i.e. "tippex".

5.3 Distribution of Cheques.

- The person responsible for the distribution of cheques must compare the beneficiaries and the amount with the payment advice before distribution.
- A Copy of the signed cheque and the remittance must be made. When the cheque is collected the copy of the cheque and the remittance must be fully signed.
- Petty cash cheques will only be issued to the person in whose name it was issued.

5.4 Authorisation

Cheques are signed by two independent senior CCA personnel with designated signing authority on the banking system and they must ensure the following:

- The completeness of the supporting documentation.
- The accuracy of the description and the amount.

Note: IN the event an original TAX Invoice or COPY Tax Invoice is not available, payment may be made, provided the input tax is not claimed.

# 1. CFRC STEP-UP: A PROGRAMME WHICH FOCUSED ON A DETAILED END-TO-END ADEQUACY REVIEW OF THE KEY FINANCIAL CONTROL PROCESSES

## 1.1 Overall Scope and Approach

- Identification of significant classes of accounts;
- Mapping the significant account balances to existing key processes and identifying any gaps;
- For significant classes of accounts, identification of key sub-processes;
- Reviewing each of the sub-processes for alignment to the Transnet accounting policies and procedures as well as applicable International Financial Reporting Standards (IFRS), Public Finance Management Act (PFMA) and related legislation, and identify any gaps or risks;
- Identifying key applications and systems supporting CFRCs;
- Reviewing External Auditors' management report for the financial year ended 31 March 2016 to identify further potential gaps in the control environment;
- Review relevant documentation (PCM's, position papers, Manual if any, existing control frameworks, systems descriptions)
- Document the detailed processes description per process (including TIA identifying other potential risk of material misstatements AFS and controls)
    - Identifying opportunities for migration from manual to automated controls
    - Evaluating internal alignment across the PCMs and SOPs;
    - Comparison of CFRCs and minimum controls to identify opportunities for elevation or relegation;
- Perform walkthroughs of as-is and map processes with Respective Process Owners
- Document Risk and Controls Matrix
- Gap Results discussed with Internal Control Division
- Gap Results:
    - Conduct gap analysis workshop
    - Discuss and finalise gaps and remedial actions with Management
    - Discussion with External Audit (where required)
- Review and finalise updated RACM, Accounting Manuals & SOP's with Process Owners
- Final Review and sign off completed documents

# 2. SIGNIFICANT RISKS IDENTIFIED

## 2.1 Procure to Pay

- The transactions recorded on SAP (i.e. purchase requisitions, orders and invoices) may not be valid, complete and accurate;
- Invalid payments are made; and
- Payments are not made timeously resulting in penalties and interest.

## 2.2 Fixed Assets

- Fixed assets are inaccurately classified;
- Non-compliance with IFRS and fixed asset company policy; and
- Misstatements of fixed asset balance and transactions in the financial statement.

## 2.3 Financial Statement Closing Process

- Erroneous, fraudulent omission on duplication of transactions (journals);
- Account Balances may be understated/ overstated, or valued at the incorrect amount;
- Misstatement of financial statements; and
- Not all accruals are raised timeously and accurately.

## 2.4 Payroll

- Invalid payroll amount processed;
- Unauthorised amendments made to the payroll master data;
- Employees are remunerated for time not worked.

## 2.5 Information Technology

- Incidents may not be identified and/or resolved in time, which may result in disruption of operations and decreased customer satisfaction;
- Unauthorised changes may be implemented which could impact integrity and confidentiality of data as well as the availability of systems;
- Accurate and complete data may not be available when required for recovery purposes in the event of a data loss thus increasing business continuity risk;
- Without appropriate segregation of duties in executing incompatible functions within the applications, there is a risk that unauthorised transactions could be processed either inadvertently or deliberately, leading to errors and fraud;
- Unauthorised people may obtain access to the system(s) resulting in possible compromise of data integrity / processing of fraudulent transactions; and;
- Failure to configure, monitor and review audit trails may result in the untimely detection of unauthorised activities carried out on the system.

## 2.6 AUDIT APPROACH

- Provide reasonable assurance on the adequacy and operational effectiveness of the CFRC to mitigate or minimise high-risk areas within the financial reporting processes and manage these risks to an acceptable level;
- Integrated assurance through the use of external audit Q4 testing results and key financial risks identified as a basis for focus in 2017/18 testing; and
- Highlight control adequacy and effectiveness deficiencies and areas of improvement and make recommendations to management, which if implemented will improve the system of internal control, risk management and governance processes.

## 2.7 MANAGEMENT RESPONSE

- All improvement plans uploaded onto SAP GRC for resolution by management
- Management addressed the shortcomings identified and implemented the improvement plans
- Management updated the relevant Process Controls Manuals, Control Frameworks and Control Self Assessments
- TIA conducting follow-up audits with the objective of providing management with assurance that the identified shortcomings have been resolved effectively

# ANNEXURE "MSM 37"

# Cost Savings & Efficiency Proposal for Supply Chain Management

Prepared by

Nkonki

Document Date: January 2017

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# 1 Overview

Nkonki Incorporated (Nkonki) is a proudly South African business, is 100% black owned and a level 1 BBBEE contributor. Nkonki has over 30 partner's and registered auditors and more than 400 professional staff, with offices in Gauteng, Western Cape, Kwa – Zulu Natal and the North West. We are a member firm of Kreston international, with access to deep global expertise in addition to its local knowledge.

Nkonki who, is committed to good corporate governance, and boasts a track record spanning about 23 years across a range of clients in the Telecommunications, Oil and Gas, IT Services, Finance and Banking, Construction and Mining industries as well as the Government Sector.

Nkonki's strategic collaboration with other specialists partners ensure that our offering is multi-faceted, comprising a suite of pre-built reporting and analysis toolsets (StratWare) and expert advisory services to assist clients in rehabilitating and improving their business performance.

Our world class solutions /toolsets, coupled with leading edge subject matter consultancy expertise provides Transnet with a scalable business optimisation solution to enable maximum visibility of information, designed to precisely direct management's attention to areas of opportunity, weakness and/or risk.

The pre-built StratWare toolsets are uniquely positioned to enable Transnet to leverage its information assets to apply best practices across a range of commercial facets in pursuit of its cost saving and austerity endeavours.

Given our experience in the delivery of business improvement initiatives at a range of clients, we are confident that we will be able to deliver the cost saving as proposed below.

## 2 Our understanding of your requirements

Transnet is the largest and most crucial part of the South African freight logistics chain, whose vision and mission is focused on freight and related transport services, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa.

To this end, Transnet requires initiatives that embrace its business complexity, scale and diversity of operations and the magnitude of transactions to:

i) identify and maintain cost savings initiatives across its business units; and

ii) to identify initiatives to improve the efficiency and effectiveness of the current Supply Chain Management (SCM) practices within Transnet and its t Operating Divisions

Nkonki proposes herewith to:

i) identify the *potential cost savings* and to recommend the attendant actions required to realise these savings across the following areas:

- Settlement Discount
- Free Text Spend Reduction
- Contract Candidates
- Potential Contract Leakage
- Retrospective Spend
- Duplicate Payments
- Outside Procurement spend
- Inventory Optimisation

Nkonki will leverage its full range of pre-built Supply Chain toolsets (StratWare) in combination with a rich vein of expertise to achieve the above objectives. In addition Nkonki will provide Transnet with the appropriate customised Dashboards/Scoreboards (Tracking Tool) to assist management with the sustainable measurement of the realisable savings and to perpetually monitor the improvement campaigns.

ii) identify the *improvement areas* of the current Supply Chain Management (SCM) practices, and to help develop, design and establish the required tools, processes, systems and controls to increase *efficiencies and effectiveness* across the following areas:

- Strategic Supplier Relationships
- Demand Planning
- Cost Savings Strategies
- Current Governance Structures and SCM regulatory Environment

This proposal encompasses:

- An initial analysis to establish potential cost savings initiatives and levers.
- Enhancement of the current management information reporting system for use by executives, senior management and any other specified business resources within the supply chain environment to promote visibility of Transnet's strategic cost savings objectives and initiatives.
- Procurement of the required roadmaps and action steps to realise the identified initiatives.
- Monitoring of progress on approved improvement campaigns.
- Procurement of the requisite resource capability to deliver the identified action plans, if required.

# 3 Proposed Solutions to Transnet

## 3.1 Cost Savings Initiatives

With the continuing global economic downturn, businesses remain under financial pressure to succeed. Purchasing professionals who successfully devise and execute strategies that minimize risk and reduce costs are thus essential to business sustainability.

Source to Procure and Procure to Pay functions and the related Purchasing departments are necessarily in a challenging position as they are required to increase their organisation's cost savings.

Transnet, like many other businesses, have to ensure that their Supply Chain department is empowered to create and implement strategies that will address their pressing focus on cost reduction, supply risk and cash optimisation.

In a recent Aberdeen survey, 91% respondents cited cost reduction as a top business pressure and 71% believed that supply risk was increasing.

These findings are consistent with those of a recent IBM survey of nearly 400 global Chief Supply Chain officers, who cited cost containment (55%) and risk management (60 %) as among the top supply chain concerns.

Across a decade of global supply management research," Aberdeen says it has "never seen the pressure to find savings reach this high level." To cut costs, best-in-class companies from the Aberdeen research — **those found to achieve 88 % spend under management and net 8.5 % cost savings have accelerated plans to source new or renegotiate current contracts and prioritize implementation of savings.**

Our experience at similar size clients indicates that at minimum the following strategy suggestions for cutting costs are relevant, viz:

- Regular spend analyses for incorporation into a comprehensive sourcing strategy;
- Development of a savings pipeline for spend under management targeting specific categories;
- Incorporation of savings quotas to staff's performance contracts;
- Regular contract compliance audits;
- Establishment of cash management and working capital strategies;

Accordingly, Nkonki proposes the development and implementation of a Cost Savings plan for Transnet which would typically encompass the following steps:

- Spend Analysis.
- Target Setting.
- Quick Hit Opportunities Execution.
- Supplier Relationship Opportunities Execution.
- Strategic Sourcing Opportunities Execution.
- Qualitative Enhancement of Supply Chain Optimisation.
- Underlying work breakdown structures and attendant reporting for each saving initiative.
- Continuous Improvement and monitoring.
- Cash Interest Cover
- Knowledge and Skills transfer for sustainable Qualitative Enhancement of Supply Chain Optimisation

The current depressed macroeconomic environment is negatively impacting Transnet's revenue and requiring a stronger focus on cash preservation, Transnet has set itself an aspirational target of R 2bn for FY15/16 and R 4bn for FY16/17

Given the magnitude and complexity of Transnet's operations, Procurement and Supply Chain functions are expected to be a major contributor to achieving these targets. Based on a preliminary estimate, Nkonki believes that there should be an opportunity to save between **R 1bn and R 2.5bn** across the source-to-procure and procure-to-pay processes over the next 3 years. (This assessment has been done by using the Nkonki analytic toolkit combined with industry benchmarks.)

In order to capture this opportunity and make it sustainable, Nkonki propose a 24 month programme to enable the cost savings identified and approved by Transnet.

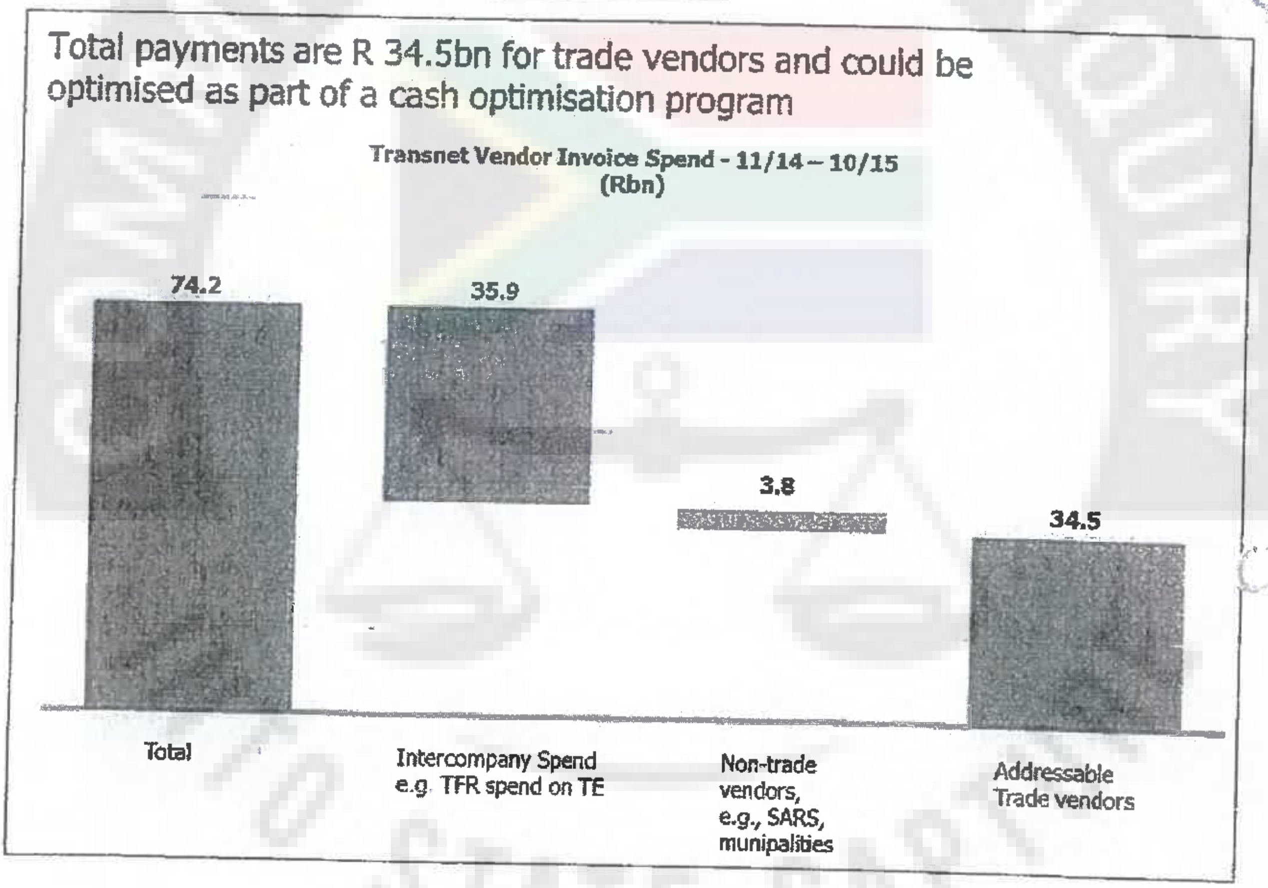
In order to make the impact sustainable, a strong focus has to be on the underlying levers, processes and the relevant compliance, e.g., capability building and training, change of system settings, set up of a continuous tracking function to monitor compliance, etc.

This proposal outlines the size of the opportunity for this value package and to propose an approach on how to capture it and to define success criteria.

The scope of work for this value package is to deliver rapid bottom line savings and to free up cash. As a consequence it will also deal with adapting Transnet's existing structures, resources, tools and skills where necessary to ensure a sustainable implementation. Nkonki will advise Transnet on potential improvements required to improve the procurement capability for rapid bottom line savings. Where required, Nkonki will procure the necessary resources to achieve complete embedment of each campaign.

An initial assessment was done, in respect of the last 12 months, to identify potential savings. The savings was premised on best practice processes and procedure to extract maximum value for Transnet.

**Spend Overview**



Salient trends that emerged revealed:

- Third party spend reduction is possible if a variety of cost reduction techniques were applied to enable:
  - Settlement Discounts
    - Total Vendor Population
      - Min – R284m
      - Max – R632m

| | Value | Minimum Saving | Maximum Saving | Criteria/Comments |
|---|---|---|---|---|
| Total Trade Spend | R38.3bn | | | Invoice based spend on trade vendors |
| Addressable Spend | R34.5bn | | | Excl. SARS, Municipalities, Regulators etc. |
| Spend with no Settlement Discount Structure | R31.6bn | R284m | R632m | Excl. SARS, Municipalities, Regulators etc.<br><br>**Minimum Saving:**<br>1.5% settlement discount on 60% of the spend landscape<br><br>**Maximum Saving:**<br>2.5% on 80% of the spend landscape |

- Identification of Contract Candidates (Material Based)
  - Min – R460m
  - Max – R1.1bn

| | Value | Minimum Saving | Maximum Saving | Criteria/Comments |
|---|---|---|---|---|
| Total Trade Spend | R38.3bn | | | Invoice based spend on trade vendors |
| Addressable Spend | R34.5bn | | | Excl. SARS, Municipalities, Regulators etc. |
| Spend Inside the procurement process | R28.8bn | | | Excl. SARS, Municipalities, Regulators etc. |
| Spend for which a contract was available | R14.3bn | | | Excl. SARS, Municipalities, Regulators etc.<br><br>Spend on materials for which a valid contract existed at the time. |
| Contract Spend | R14bn | | | Excl. SARS, Municipalities, Regulators etc. |

| | | | | |
|---|---|---|---|---|
| Spend on items procured repeatedly over the last 3 years for which no valid contracts exist | R103m | R2m | R5m | Spend referencing a contract. **Minimum Saving:** 2% price reduction **Maximum Saving:** 5% price reduction |
| Items procured from vendors with existing contracts | R3bn | R60m | R150m | Items procured from vendors with existing contracts for other materials/services (contracts expiring more than 6 months in the future) **Minimum Saving:** 2% price reduction **Maximum Saving:** 5% price reduction |
| Free Text Spend not assigned to a contract | R19bn | R380m | R950m | **Minimum Saving:** 2% price reduction **Maximum Saving:** 5% price reduction |

- Eliminate Duplicate Payments
  - Min – R38m
  - Max – R135m

| | Value | Minimum Saving | Maximum Saving | Criteria/Comments |
|---|---|---|---|---|
| Total Trade Spend | R38.3bn | | | Invoice based spend on trade vendors |
| Possible duplicate payments | R157m | R39m | R133m | Vendor Payments where the invoice amount, PO line reference, Invoice reference and vendor is the same excl.<br>▪ SARS<br>• Municipalities<br>• Universities<br>• HR Payments<br>• Obvious Recurring Payments<br>**Minimum Saving:** 25% price reduction<br>**Maximum Saving:** 80% price reduction |

- Reduce outside procurement/maverick spend
  - Min – R60m
  - Max – R160m

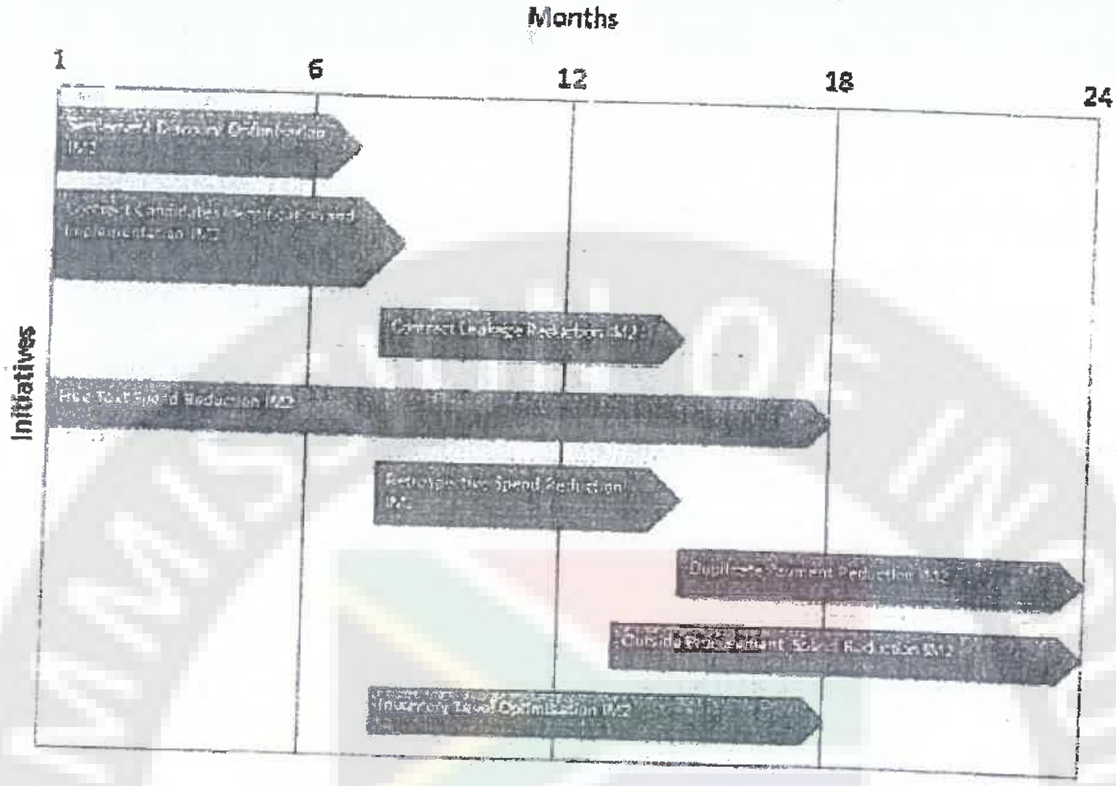
| | Value | Minimum Saving | Maximum Saving | Criteria/Comments |
|---|---|---|---|---|
| Total Trade Spend | R38.3bn | | | Invoice based spend on trade vendors |
| Addressable Spend | R34.5bn | | | Excl. SARS, Municipalities, Regulators etc. |
| Spend outside the | R5.7bn | | | Excl. SARS, Municipalities, |

| | | | | |
|---|---|---|---|---|
| procurement process | | | | Regulators etc. |
| Spend outside the procurement process excl. vendor spend identified for contract candidates | R2.7bn | R54m | R135m | Excl. SARS, Municipalities, Regulators etc.<br><br>**Minimum Saving:**<br>2% price reduction<br><br>**Maximum Saving:**<br>5% price reduction |

- Inventory Optimisation
  - Min – R200m
  - Max – R650m

| | Value | Minimum Saving | Maximum Saving | Criteria/Comments |
|---|---|---|---|---|
| Total Stock Value | R11.83bn | | | |
| Addressable Stock | R10.6bn | | | Stock excl. Spare Parts |
| Dead Stock | R2.18bn | R200m | R650m | Stock with no movement for more than 36 months.<br><br>**Minimum Saving:**<br>10% reduction<br><br>**Maximum Saving:**<br>30% reduction |

Nkonki propose a phased approach to implement the identified cost saving as indicated and prioritised in the roadmap below:




## Anticipated duration of Implementation Milestones

| Step | Description | Duration |
|---|---|---|
| **Step 1 (IM 1)** | Identification | 16 weeks per initiative |
| **Step 2 (IM 2)** | Value assessed and Approval | 8 weeks |

Nkonki will augment the currently deployed StratWare application at Transnet, adding more comprehensive and focussed toolsets in order to identify and confirm the potential savings.

In essence the *cost saving initiative* of the project is self-funding, and is based on a gain share methodology (explained in section 4 below). Nkonki will thus be rewarded according to the implementation milestones (to be discussed and confirmed with management) as depicted below:

**Implementation Milestones**

| | Identification | Value assessed and Approved | Execution | Delivered |
|---|---|---|---|---|
| | IM 1 | IM 2 | IM 3 | IM 4 |
| Criteria for completion | Concrete improvement initiative developed and described in implementation manual and workflow chart<br>Benefits to Transnet roughly quantified using baseline data (can be ranges, min max etc.)<br>Major implementation steps identified | General feasibility cleared with project sponsor with detailed individual work breakdown structures supported by requisite tracking capability in StratWare<br>All implementation steps have been signed off<br>Benefits to Transnet evaluated in detail over 3 year period and cleared with CPO/CFO<br>Exco/CXO have authorised implementation<br>All implementation steps described and responsibilities appointed<br>Approved by Steercom | All implementation steps have been completed<br>Resources/capital for implementations have been released<br>New contract/operating procedure is in place and fully effective in day to day business<br>Benefits for Transnet start to be collected (ramp-up)<br>Implementation resources can be released | Total benefits have been incurred for Transnet (over/up to 5 year period)<br>Bottom line effect on principle measurable on SCM<br>No further tracking required |

For IM2 to be realised a discussion will be held with Transnet management to determine the payments of the savings.

Each of the above steps is explained in the detail below.

### 3.1.1 IM 1: Identification

In IM 1 we will identify and confirm the potential cost saving and establish the required baseline for future measurement.

The diagnostic result and related roadmap will form the foundation for the specific improvement/cost savings campaigns that Transnet may elect to pursue. Whilst we have previously indicated the nature of a typical campaign, the focus and priorities will be wholly dependent on Transnet agreeing on the identified initiatives.

Nkonki will leverage the diagnostic results, its subject matter expertise and industry wide experience to recommend the priority and impact of the various initiatives.

Regular workshops with the executive sponsor and business fraternity will help to establish key campaigns to be rolled out. These campaigns will have to be agreed upon and resourced at the relevant decision node.

The following detailed activities will be performed:

- Spend analysis
- Deep dives for strategic vendors and commodities to enable the set-up of value packages

- Quantification of baseline savings - confirm spend data, baseline, size of opportunity and agree on target
- Concrete improvement initiative developed and described in implementation manual and workflow chart
- Set up tracking and programme governance

**Baseline**

Transnet's spend data is stored on a number of separate SAP systems and suffers from a lack of proper codification. As a consequence, it is therefore difficult to produce an accurate baseline for the value package. Nkonki will utilise its toolsets to identify opportunities and propose improvements.

Challenges that will have to be addressed in this value package include:

- Lack of codification and data integrity
- SAP standard reporting and classification across the instances
- Process inconsistencies within Transnet and its OD's
- Poor utilisation of materials/short text descriptions making it difficult to determine what was purchased

### 3.1.2 IM 2: Value Assessment and Approved

In IM 2 Nkonki will obtain the required approval and confirmation from business and iSCM Council as to the correctness of the identified initiatives enabling a deep dive into the SCM environment to further establish all implementation steps.

The deliverables for step 2 (IM 2) will consist of:

- General feasibility cleared with executive sponsor with detailed individual work breakdown structures supported by requisite tracking capability in StratWare
- All implementation steps will be signed off
- Benefits to Transnet evaluated in detail over 3 year period and cleared with Transnet Group CPO/CFO
- GLT authorisation will be obtained for implementation
- All implementation steps described and responsibilities appointed
- Approved by Steercom

On approval Nkonki will enable a governance and tracking capability to manage and track the approved initiatives.

StratWare offers the additional benefit of granularly tracking the elected campaigns and the concomitant results.

Continuous performance management and benefits tracking are crucial to measuring the success of any initiative and evaluating its return on investment. It is a key mechanism for ensuring that planned objectives are being addressed and achieved for the overall business as well as specific initiatives.

The performance management component of our service offering will consist of adopting a mechanism to continuously monitor the performance of Transnet against stated initiatives. These identified measures can be setup for automated distribution and distributed to user groups at regular intervals.

### 3.1.3 Execution (IM 3)

The execution of IM 3 will be performed by Transnet to embed the approved savings opportunities approved in step 2. Nkonki however, could assist to enable the cost savings initiatives as per the costing defined in section 4.

Successful completion of this milestone will require:

- All implementation steps have been completed
- Resources/capital for implementations have been released
- New contract/operating procedure is in place and fully effective in day to day business
- Benefits for Transnet start to be collected (ramp-up)
- Implementation resources can be released

## Key Assumptions for cost savings initiatives

This section is premised on the following key assumptions, et al:

- "Display all" access for to SAP R3, Development, QA and Production systems will be available immediately at the start of the project.
- Transnet to provide project office facilities.
- "Display all" access to all other third party and or bolt-on applications that impact on the current Transnet supply chain environment.
- Transnet will acquire/provide a server for the hosting of StratWare at the onset of the project.
- Admin rights to Transnet StratWare server.
- The duration of the enablement components will be directly affected by the involvement and availability of key business process owners in Transnet departments respectively. These representatives will also be responsible for deliverable sign-off.
- VPN / remote access to Transnet network for StratWare support.
- Network, internet and email access for project team

## 3.2 Initiatives to improve the Efficiency and Effectiveness of SCM

### Background

Integrated Supply Chain Management (iSCM) aims to deliver economic value to Transnet, and deliver on Governments and Transnet strategic objectives by optimising supply chain activities which in turn will enable efficient and reliable services to the end customer. The execution of integrated supply chain strategy across Transnet is intended to deliver sustainable value through building the foundation where SCM aims to increase efficiency and effectiveness with seamless delivery to internal customers.

The iSCM strategy is continuously being reviewed considering the significant role that iSCM plays in enabling Transnet's Market Demand Strategy. The current SCM policy requires Transnet to carry out procurement in a cost-effective manner, while meeting commercial, regulatory and socio-economic goals, and ensuring good governance.

The current economic climate has created a need for reshaping and enhancing the current procurement practices to ensure that these practices are more responsive, agile, and automated to increase efficiencies, create improved economic value with the ultimate aim of reducing the cost of doing business for Transnet.

In addition Transnet business has identified the following challenges:

- procurement is not responsive, and the current processes take long to source key commodities and or services which is delaying the award of business and impacting negatively on operations, resulting in customer requirements not being satisfied in a timely manner ;
- the Transnet Procurement policies and regulations are bureaucratic, contains too much red tape, is cumbersome and too complex. They contain too many layers of unnecessary administrative requirements and are sometimes overregulated which costs time and money;
- strategic partnerships with suppliers have not been developed to achieve the desired benefits. This is evident in high prices paid for goods and services and contracts that favour certain suppliers;
- intelligent analysis of procurement data, developing effective category management and enhanced sourcing strategies has not been established;
- the monitoring of procurement patterns, prices and contracts have not been agile and effective to support procurement strategies;
- demand planning for commodities and services are not effectively planned and managed. SCM has not been able to perform adequate market research and analysis;
- The utilisation of technology to streamline transactions has not been developed; and
- Identifying and implementing cost saving tools and or processes have not been developed in a sustainable manner;

In response to these challenges, GLT requires iSCM to develop and or enhance key areas with a view to identifying key initiatives that can be developed and implemented to improve the "EBITDA", whilst still ensuring compliance with all relevant legislation and upholding the principles of fairness, transparency, equity and cost effectiveness as enshrined in the constitution and Transnet's SCM policy.

SCM have identified the following key initiatives to support this turn around which is urgently required. SCM unit does not have the internal resources or the capacity to perform these initiatives and will require external assistance.

### 3.2.1 Strategic Supplier Relationship

Transnet is currently challenged with overpaying for commodities and services, and not receiving the required benefits or value even though Transnet has both the buying power and the power to influence change in certain industries. Transnet needs to better understand the categories of goods and service within its spending portfolio, their intended use and the source of supply from its suppliers.

Transnet needs to partner with suppliers to develop deep, mutually beneficial relationships over the long-term and to develop true supply chain excellence.

*Immediate Cost Savings Strategies (next 3 months)*

- Review the existing contracts with all suppliers (i.e. top 200 at Group and top 50 at the OD's) across all OD's and consider renegotiating terms and conditions for both capital and operational expenditure. Estimated savings of 20 to 30% is required:
  - Perform a market, technical and supplier analysis
  - Direct negotiations with selected suppliers
  - Prepare Competitor analysis
  - Review the existing SWOT analysis performed per key commodity
  - Update the commodity document with latest benchmarking and market analysis

- Renegotiate with current suppliers providing the same goods to create common pricing and aligning to shortest conduct period and then consider going out to tender.
- Develop price reprieve options for suppliers:
  - Intelligent market and product analysis will be required;
  - Global and local economic outlook and future purchasing power trends must be considered;
  - Focus on key commodities
  - Global market trends and exchange rate fluctuations risks must be analysed and benchmarked
- Investigate and centralise ~~contracts where~~ the same service or commodity is being supplied by different suppliers at the various OD's.
- Perform benchmarking of all commodities and services being procured across all OD's in terms of price, margins, demand and availability to allow the development

of an intelligent suppliers knowledge database to enable the effective renegotiation of prices with immediate effect;

- Review and investigate what the price make up/breakdown of the various commodities and perform benchmarking to assess the reasonability of these commodity costs;
- Review and reassess the use of sole suppliers and assess their overall economic benefit in comparison to efficiency and overall market demand;
- Review and update the current commodity document incorporating category management.

*Long term (next 6 to 12months)*

- Review and update the SWOT analysis of the current Transnet, supplier relationship matrix and commodities to ensure relevant to changing demands and supply market ;
- Establish a benchmarking and research knowledge unit that is able to develop, analyse information relating to prices, margins, and the supply of all key commodities and services utilised by Transnet across all of the OD's;
- Develop market intelligence of competitor's key commodities and services ahead of demand;
- Develop and embed a complete end to end commodity and service category database which is automated, accessible, continuously updated and allows for real time decision making;
- Develop key exception reports that highlights possible savings and efficiencies;
- Design and develop standardised monthly reporting templates across all ODs;
- Design and develop negotiation strategies to support strategic partnership with suppliers within the confines of the Transnet governance processes and regulations;
- Develop a structured working relationship with suppliers and thereby create a culture of cooperation and continuous engagement;
- Develop and institute a regular channel for the communication and dissemination of key processes, policies and procedures, general requirements for tenders, and or planned procurement opportunities with suppliers;
- Develop a *Supplier Relationship methodology* which would include:
  - Defining Transnet's priorities
  - Understanding the supply market
  - Understand the current maturity and approaches to supply
  - Work out who can give you what you need and what will you have to give in return
  - Build strategies (define suppliers in terms of their different levels within the supply chain)
  - Segment the supply market
  - Engage the whole business of Transnet
  - Train and develop those who need it
  - Implement differential supplier management approaches
  - Embed the process that will keep it going over the long term (senior management down)

- Establish Collaboration and synchronisation of Supply Chain;
- Develop processes and utilise technology as enablers; and
- Define and develop measurement criteria for achieving results, an effective reward system, and a process for continuous improvement

### 3.2.2 Demand Planning

It is a legal requirement that Transnet prepares and publish procurement plans. These procurement plans must be in line with the Annual Corporate Plan and Shareholder Compact of Transnet and must be properly costed.

The demand planning from business within Transnet has been ineffective and not appropriately aligned to the business requirements, the budget and the corporate plan. Transnet requires the following immediate interventions:

*Next 3 months*

- Develop a database of a complete spend analysis across all ODs per commodity and service which should be categorised. These would include for both CAPEX and OPEX. The database will provide the value of the contract, the expiry of the contract etc.
- Develop a system to allow the alignment of the current commodity requirements per the 17/18 corporate plan to the procurement pipeline. The system should assist in :
  - Identifying if the commodity required is currently supported with existing contract or not;
  - Assessing if the commodity will require a contract extension or a new procurement event;
  - Identifying the timing of the procurement event vs the projected cash outflow per commodity and or services projected for the 17/18 Financial Year per OD;
  - Reviewing the demand from business per OD and assess if accurately forecasted and aligned to the Corporate plan and procurement pipeline;
- Amend and or update the proposed 17/18 procurement plan per OD ;
- Develop an automated process, supported with standard templates and guidelines across all ODs that will be ready for use in generating the 18/19 Corporate plans.

*Next 6 to 12 months*

- Review and enhance the entire demand planning process across all the ODs;
- Review the process of developing procurement plans for the short, medium and long term
- Develop guidelines and operating manuals to support the development of effective demand planning;

- Establish alignment between budgets, strategy and projects and thereby reduce unplanned procurement;
- Continuously review and update the database of the spend analysis per Commodity and service. The database should be defined, maintained and supported with standard operating procedures;
- Develop market intelligence and perform regular industry benchmarking exercises to determine accurate and complete costings for the procurement plans;
- Develop an automated quarterly reporting toolkit, which is supported with guidelines, frameworks and standard templates for all OD's;
- Develop training on the implementation of new and revised practices and strategies

### 3.2.3 Cost Savings Strategies

Transnet is experiencing tough economic climate which is putting major pressure on iSCM to ensure that measures are being put in place to avoid unnecessary purchases, reduce waste and contain costs. Transnet needs to:

- Optimise existing procurement strategies and approaches:
  - Develop centralised contracting on commodities and service being utilised across all ODs (i.e. transversal contracts);
  - Establish a database of all these services and commodities across all the ODs and which should be categorised per product type;
  - Establishment of long term supplier relationships and certainty in the market place;
  - Develop processes and systems to renegotiate supplier pricing on a continuous basis;
  - Develop a strategy on rebates on key commodities (e.g. like the wheels of the train);
  - Relook at how technology should be used to enable possible savings;
- Develop performance based contracts that could incentivise suppliers in providing better value with lower costs and resulting in improved performance for Transnet;
- Develop and implement revised strategic sourcing models based on the service or commodity (i.e. whether a tactical, routine or leverage spend). Develop a complete analysis of the current commodities and services utilised, the spend patterns, the volumes and the impact on the available market and industry;
- Continuous monitoring and understanding of market conditions to ensure best prices are obtained in changing environment;
- Develop strategies with suppliers to reduce inconsistency in prices between private sector and state owned institutions (Transnet needs to use the size and value of its spending on commodities to leverage its buying power);
- Develop standardised specifications of common commodities;
- Develop efficiencies in providing information on spending patterns through the use of technology and automation;
- Develop key exception reports which can be analysed to identify opportunities to unlock cash savings.

### 3.2.4 The Current Governance Structures and SCM Regulatory Environment

Business has raised concerns that the current SCM regulatory and governance landscape is bureaucratic, extremely complex, contains too many red tape which is administratively overburdening, and is not supporting business to be responsive and effective in both the short and long term.

This initiative is built on improving the end delivery to the customer whilst still maintaining compliance to the regulatory and governance structures of Transnet.

The activities to support this initiative will include the following:

*Rationalise the existing SCM Regulatory Environment:*

- Develop a risk acceptance and tolerance model relating to Governance principles within the SCM environment which is approved by GLT and the Board;
- Review the applicability of the PPFA to Transnet and assess if the current Procurement Procedure Manual (PPM) is overregulating in relation to efficiencies and deriving economic value;
- Review the current PPM to identify opportunities for improved efficiencies: (i.e. streamline the process approvals, replace manual systems with automation etc);
- Review the current Delegation Of Authority (DOA) and Acquisition council structures and assess if the mandates and terms of reference is aligned to the iSCM business objectives from an efficiency and economical value chain perspective;
- Update and issue revised PPM, DOA, Acquisition Council mandates and other related Governance documents and structures;

*Streamline Business Processes*

- Review the current SCM processes and identify inefficient and uneconomical processes that needs to be removed;
- Develop and automation system to replace the time consuming manual paper based quotation system;
- Develop internal processes to support the move to the Central Supplier Database (CSD) and eTender platform of government;
- Develop practical implementable and change management plans to embed revised processes;

*Tender Documents*

- Rationalise the number of tender documents issued to ensure the documents are more simple and easily to understand;
- Review and assess the current layouts of standard documents to ensure improved and fit for purpose

*Reporting*

Develop and enhance the current reporting systems and supporting framework to ensure critical information such as procurement plans, tenders to be advertised, the value of each award and progress of the tender are available real time and reported upon timeously.

### 3.2.5 Critical Success Factors

*Skills Transfer and Business Continuity*

- Partnering with SCM staff to develop a continuous improvement programme that is monitored and reported upon at every key milestone
- Develop a training programme to ensure the upskilling and transfer of skills of SCM employees during the project duration:
  - Champions from the SCM unit will need be identified to lead the programme;
  - Monthly and quarterly targets will be set and measured; and
  - KPI's will be developed and included into employees Performance agreements

*Automation and the Use of Technology*

Technology will be harnessed to ensure that new practices and improvements areas are automated, to allow for improved efficiencies, better data quality, quicker decision making and improved turnaround times resulting in a high performing and efficient SCM unit

*Roles and Responsibilities between Group SCM and OD SCM*

Group SCM is responsible for strategy formulation, policy making, and governance, development of procedures and standardisation of all procurement practices across all the OD's of Transnet. OD SCM units are implementing agents of the Group within their respective OD's.

For this project SCM units within each of the OD are instrumental in the roll out of the above improvement initiatives. A project committee will be established between Group and all the SCM units of all OD's. A project charter with a project plan will be developed which will provide guidelines to the following key elements:

- Sponsor and stakeholders
- Scope and approach
- Estimated benefits
- Measurement of the project success (KPI's)
- Roles and Responsibility (RACI matrix)

*Lean Six Sigma*

To achieve the success of the proposed initiatives the SCM department will adopt the Lean Six Sigma methodology. Lean Six Sigma is a methodology that relies on a collaborative team effort to improve performance by systematically removing waste. Within the SCM environment the objective will be to:

- streamline Supply Chain processes to be efficient and effective.
- reduce waste/ unnecessary activities in the process.

The Lean Six Sigma is based on the DMAIC principles (*Define, Measure, Analyse, and Improve & Control).* A dedicated project team will be set up to implement Lean Six and a champion will be identified to lead and enable the implementation and monitoring of the project.

# 4 Proposed Costing Model

The costing of this project has been separated between:

- the cost saving initiative; and
- the initiatives to improve the efficiency and effectiveness of SCM

## 4.1 Cost Saving Initiative

Nkonki proposes a self-funding gain share model whereby Nkonki will be rewarded on deliverables achieved as defined in the implementation model based on the defined milestones. Nkonki believes that the costing structure above supports a self-funding principle and will be mutually beneficial to both Transnet and Nkonki. It should be borne in mind that the timing of the payments made to Nkonki and the potential benefits to be realised by Transnet will not necessarily coincide.

The envisaged end state or implementation milestone of the work packages for benefit calculations will be at IM 2 and will be 8% for CAPEX and 12% p.a. for OPEX of the savings for recurring benefits or impact that is calculated respectively, to a maximum equivalent value for 3 years of such identified savings. A cash interest cover of 2, 5 times will be maintained in ensuring the realised benefits are achieved.

It is proposed that the cost savings techniques and processes recommended by Nkonki at IM 2 and IM 3 will invariably create a permanent reduction in costs for Transnet's benefit. Nkonki will share such benefits only for a maximum of 3 years and not into perpetuity.

Nkonki proposes that payment of expenses (Travel and accommodation) will be made outside of realised savings but proposes that the expenses be capped at 10% of the 12% benefit sharing percentage. The rate of expense that Nkonki will charge Transnet will be based on National Treasury rates. Expenses will be claimed as incurred on an actual basis and paid upon claim to the limits above.

## 4.2 The initiatives to improve the Efficiency and Effectiveness of SCM

The effort to enhance cost savings is inextricably linked to the efficient workings of Transnet's supply chain environment. It is Nkonki's fervent belief that all such savings proposals should be premised on improvements to the supply chain enviroment that are sustainable and perpetual. To this end our effort is directed to identifying and rehabilitating any supply chain deficits to give effect to the identified savings in perpetuity.

~~To this end a range~~ of skilled resources are required to execute all initiatives in accordance with the planned initiatives.

This effort has simultaneous import for both group and the individual operating divisions. Accordingly our efforts will be directed to affecting improvements "top down" and "bottom up".

It is expected that the following minimum resources will be required at the rates stipulated below:

| Quantity | Rate per hour | Duration |
|---|---|---|
| 35-50 | R 938 | 18-24 months |

We anticipate that the cost for efficiency and process improvements as projected above will also be recovered through the cost savings generated by this program

## 5 Key success factors

The following key prerequisites are required from Transnet to ensure the successful completion of the project and deliver the requisite savings:

- Strong governance with executive buy-in and support is required to ensure acceptance of cost saving opportunities – including a full time senior executive to lead the turn-around on Transnet's behalf
- An experienced commercial functionary from each operating division to manage turn-around process.
- Availability of CFO's and CPO's for weekly progress meetings
- Monthly steering committee meetings
- Support from Transnet procurement, supply chain, legal, treasury and IT departments
- Willingness to change SAP settings according to recommendations from project team
- Access to information and documents related to project:
- Complete description of business processes and procedures related to cost savings initiatives
- KPI's related to improvement initiatives

## Administrative Details

### 6.1 Terms of the Agreement

**Validity Period**

This quotation is valid for a period of ninety (90) days.

**Effective Date**

It is proposed that this agreement should become effective on the date of acceptance and signature by both parties to this agreement.

**Cancellation**

In the event of any party breaching any of the material terms of this agreement or failing to honour his obligations in terms of this agreement, and such default continues after receipt of a written notice from the aggrieved party calling on the party in breach to remedy the default, the aggrieved party will be entitled to terminate or suspend this agreement and to claim from the party in breach all such monies which would have been payable to the aggrieved party in terms hereof as liquidated damages.

## 6 Commercial Details

### 6.1 Services

Nkonki will act as primary contractor to Transnet on this project. All charges exclude VAT.

### 6.2 Payment Schedule

**Monthly Billing**
Billing will be conducted as described in section 4 of this proposal

### 6.3 Payment Terms and Interest on Overdue Amounts

Payment is due within 30 days from submission of an invoice. Interest (at the ruling banking prime rate) will be levied on overdue payments.

### 6.4 Limitation of Liability

This agreement is limited to the provision of services as described. Beyond the scope defined in this agreement, Nkonki will not be liable for any direct, indirect, incidental or consequential damages, whether due to negligence of any party and whether caused directly or indirectly.

### 6.5 Nkonki Details

| Nkonki Incorporated | |
|---|---|
| Address | 1 Simba Road, Cnr Nanyuki Road Sunninghill 2132 |
| Address for Correspondence | P O Box 1503 Saxonworld 2132 |
| Telephone | +27 (0)11 517 3000 |
| Facsimile | 086 617 5316 |

### 6.6 Confidentiality and Copyright

The information contained in this document is confidential and is submitted by Nkonki on the understanding that it will be used only by the person to which it was issued. In particular, the contents of this document may not be disclosed in whole or in part to any other party without the prior written consent of Nkonki. Copyright in this document remains vested in Nkonki and no copies may be made of this document or any part of it except for the purposes of evaluation in confidence.

### 6.7 Validity of Information

Nkonki has made every effort to ensure that all statements and information contained herein are accurate. Nkonki endeavours to ensure that the information in this document is correct and fairly stated, but does not accept liability for any error or omission.

### 6.8 Trademarks

Due to the nature of this material, this document may refer to other hardware and software products by their trademarks. In most, if not all cases, these designations are claimed as trademarks or registered trademarks by their respective companies. It is not Nkonki's intent to use any of these names generically. The reader is therefore cautioned to investigate all claimed trademark rights before using any of these names other than to refer to the product described.

# 7 Acceptance

The Parties hereby accept this agreement.

## 7.1 Accepted by Nkonki Incorporated

Authorised Signature: ____________ Witness Signature: ____________

Name: ____________ Date: ____________

Position: ____________ Witness Signature: ____________

Date: ____________ Date: ____________

Location: ____________

## 7.2 Accepted by Transnet

Authorised Signature: ____________ Witness Signature: ____________

Name: ____________ Date: ____________

Position: ____________ Witness Signature: ____________

Date: ____________ Date: ____________

Location: ____________

# ANNEXURE "MSM 38"

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner Str. Johannesburg
2001

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Parkview
South Africa, 2122
T +27 11 308 2250
F +27 11 308 1269

TRANSNET

**MEMORANDUM**

www.transnet.net

**TO** : **Transnet Acquisitions and Disposals Committee**

**FROM** : **Siyabonga Gama,** Group Chief Executive Officer

**SUBJECT** : **COST SAVINGS AND EFFICIENCY FOR SUPPLY CHAIN MANAGEMENT (SCM) AND REVENUE ENHANCEMENT PROPOSALS**

**PURPOSE:**

1. The purpose of this memorandum is for the Acquisitions and Disposals Committee to recommend that the Board:
   - Approve the appointment of consultants for:
     - The Cost Savings and Efficiency Proposal for ISCM from Nkonki Incorporated which was approved as a permitted Non-Audit service by the Audit Committee.
     - The Iron ore and Coal revenue enhancement program proposals for Transnet Commercial from Nkonki Incorporated which was approved as a permitted Non-Audit service by the Audit Committee.
   - Delegate authority to the GCE to sign all documentation including the contract documentation.

**BACKGROUND - ISCM COST SAVINGS AND EFFICIENCY:**

2. The Group Leadership Team (GLT) has raised concerns that the current SCM practices are bureaucratic, extremely complex, contains restrictive red tape which is administratively overburdening, and are not supporting business to be responsive and effective in both the short and long term.

3. GLT requires that the current SCM practices be reshaped and enhanced in order to ensure that SCM is more responsive, agile, and automated to increase efficiencies, create improved economic value with the ultimate aim of reducing the cost of doing business with Transnet.

4. GLT also requires SCM function to develop and/or enhance key focus areas with a view to identifying key initiatives that can be developed and implemented to improve "EBITDA", whilst still maintaining compliance to the regulatory and governance requirements of Transnet. These initiative must include the development of Strategic Supplier Partnerships, the development of category strategies and the setting up of

"SWAT" teams to drive these categories, cost savings including price reprieves and price reductions, reviewing the processes and procedures and to reduce unnecessary bureaucracy and red tape to allow procurement to be responsive to business and to be a true business enabler. This requirement is urgent to enable iSCM to support the various initiatives to address the risks in the 2016/2017 and the 2017/2018 and beyond results.

**BACKGROUND - IRON ORE AND REVENUE ENHANCEMENT:**

5. The continued lower than planned demand for freight logistics services is having a direct impact on the Transnet Revenue line and, as a result, is impacting on the affordability of the capital investments that have been undertaken. Transnet is at risk of defaulting on loan covenants (cash interest cover <2.5 times) or being downgraded to sub-investment grade.

6. One of the immediate steps the Group's Leadership Team (GLT) and the Board has approved to avoid the above situation over the short-term is focused on Revenue management

7. There are specific activities on some of the existing revenue line can be done to assist in improving the revenues for example Iron ore and Coal.

**DISCUSSION- iSCM COST SAVINGS AND EFFICIENCY:**

8. Transnet requires initiatives that embrace its business complexity, scale and diversity of operations and the magnitude of transactions to:

   - Identify suppliers where strategic partnerships can be formed to assist in delivering value to the organisation and enhancing savings, de-risking sole supplier's monopolistic behaviours.
   - Developing key category strategies and implementing "SWAT" support across the organisation to drive and enable these strategies in the various sourcing activities.
   - identify and optimise cost savings initiatives across its Operating Divisions and Specialists Units; and
   - to identify initiatives to improve the efficiency and effectiveness of the current SCM practices within its Operating Divisions and Specialists Units

9. Currently Group SCM does not have the necessary capability and resources internally to complete the above required initiatives and therefore seeks assistance from an external service provider.

10. Nkonki has submitted a proposal to assist management with the requirements listed above in 3 and 4 to:

i) identify the *potential cost savings* and to recommend the attendant actions required to realise these savings across the following areas:

- Settlement Discount
- Free Text Spend Reduction

- Contract Candidates
- Potential Contract Leakage
- Retrospective Spend
- Duplicate Payments
- Outside Procurement spend
- Inventory Optimisation

ii) Identify the *Improvement areas* of the SCM practices, and to assist in the co-development, of the required tools, templates, and related processes and systems to increase *efficiencies and effectiveness* across the following areas:

- Strategic Supplier Relationships
- Demand Planning
- Cost Savings Strategies
- Current Governance Structures and SCM regulatory Environment

11. The proposal submitted encompasses:
    - An initial analysis to establish potential cost savings initiatives and levers.
    - Enhancement of the current management information reporting system for use by executives, senior management and any other specified business resources within the supply chain environment to promote visibility of Transnet's strategic cost savings objectives and initiatives.
    - The required roadmaps and action steps to realise the identified initiatives
    - Monitoring of progress on approved improvement campaigns.
    - The requisite resource capability to deliver the identified action plans, if required.

12. Cost Savings scope
    - This initiative is aimed at achieving savings for Transnet which will directly increase Transnet's EBITDA and NPAT.
    - The development and implementation of a Cost Savings plan for Transnet which would typically encompass the following key activities:
        - Spend Analysis.
        - Target Setting.
        - Quick Hit Opportunities Execution.
        - Supplier Relationship Opportunities Execution.
        - Strategic Sourcing Opportunities Execution.
        - Qualitative Enhancement of Supply Chain Optimisation.
        - Underlying work breakdown structures and attendant reporting for each saving initiative.
        - Continuous Improvement and monitoring.
        - Cash Interest Cover
        - Knowledge and Skills transfer for sustainable Qualitative Enhancement of Supply Chain Optimisation

- In order to capture this opportunity and make it sustainable:
    - A twenty four month programme is proposed, to enable the cost savings identified and to be approved by Transnet.
    - A strong focus will be on the underlying levers, processes and the relevant compliance, e.g., capability building and training, change of system settings, set up of a continuous tracking function to monitor compliance, etc.

- The scope of work for this value package is to deliver rapid bottom line savings and to free up cash. As a consequence it will also deal with adapting Transnet's existing structures, resources, tools and skills where necessary to ensure a sustainable implementation. Nkonki will advise Transnet on potential improvements required to improve the procurement capability for rapid bottom line savings

13. Initiatives to improve the efficiency and effectiveness of SCM scope
    a) Strategic Supplier Relationships:
        - Developing savings opportunities through renegotiated contracts, price reprieves, centralisation of contracts;
        - Perform benchmarking of all key commodities and services being procured across all OD's and develop a supplier knowledge database;
        - Refine and redesign the current commodity catalogue and category management processes; and
        - Co-develop a supplier relationship methodology which is reviewed and updated on a regular basis.
    b) Demand Planning
        - Develop tools, and templates to allow the alignment of the current commodity requirements per the corporate plan to the procurement pipeline (to commence with 17/18 FY);
        - Develop a database which categorises the spend analysis across all ODs per commodity and service; and
        - Review and enhance the entire demand planning process & development of procurement plans across all the ODs.
    c) Cost Savings Strategies
        - Develop and design procurement strategies and approaches to optimise savings and benefits; and
        - Develop revised strategic sourcing models.
    d) Current Governance Structures and SCM regulatory Environment
        - This initiative is built on improving the end delivery to the customer whilst still maintaining compliance to the regulatory and governance requirements of Transnet and will focus on:
            - Rationalising existing SCM processes and practices;
            - Streamlining existing business processes; and
            - Develop and enhance the current reporting of SCM performance

14. Nkonki has been preferred to perform this project due to the following:

- They have institutional knowledge of Transnet environment through their TIA engagement;
- They have a full range of pre-built Supply Chain toolsets in combination with a rich vein of expertise, which will provide Transnet with the appropriate customised Dashboards/Scoreboards (Tracking Tool) to assist management with the sustainable measurement of the realisable savings and to perpetually monitor the improvement campaigns;
- The toolsets and the intellectual property developed during this project will become the ownership of Transnet, and is valued at greater than R50 million;
- The use of Nkonki through the TIA contract allows Transnet to be provided with a range of skilled resources with the relevant expertise and industry knowledge at a blended rate of R938 which is far below the market price.

15. The project will commence one week after the approval of the proposal.

16. The longer contract period will allow for the transfer of skill to Transnet and its employees.

17. The assignment falls within the guidelines for the provision of non-audit services by TIA as:
    - It is aimed to add value by providing savings to Transnet and thereby increase EBITDA and NPAT;
    - It is also aimed at enhancing the governance and control environment; and
    - It does not distract TIA from effective execution of the annual audit plan.

**DISCUSSION- - IRON ORE AND REVENUE ENHANCEMENT:**

18. Transnet requires initiatives that will enhance the revenues earned from the Iron Ore and Coal Businesses.
    - Performing the equity balancing (verification and support) for the RBCT in order to assure revenue and integrity on the allocations and to monitor and manage take or pay contracts or penalties. This is required to be performed on a weekly basis.
    - Benchmarking on Iron ore rail transport.
    - Specialist support in the revising of the Iron Ore take or pay agreement
    - Setup the customer nerve centre which will be setup to ensure contract management compliance revenue management and new customer on boarding.

19. Currently Group Commercial does not have the necessary capability and resources internally to complete the above required initiatives and therefore seeks assistance from an external service provider.

20. Nkonki has submitted proposals to assist management with the requirements listed above.

21. Nkonki has been preferred to perform this project due to the following:
    - They have institutional knowledge of Transnet environment through their TIA engagement;
    - The use of Nkonki through the TIA contract allows Transnet to be provided with a range of skilled resources with the relevant expertise and industry knowledge at a blended rate of R938 which is far below the market price.

22. The longer contract period will allow for the transfer of skill to Transnet and its employees.

23. The assignment falls within the guidelines for the provision of non-audit services by TIA as:
    - It is aimed to add value by enhancing iron ore and coal revenues to Transnet and thereby increase EBITDA and NPAT;
    - It is also aimed at enhancing the governance and control environment; and
    - It does not distract TIA from effective execution of the annual audit plan.

31..1.2. In essence the *cost saving initiative* of the project is self-funding (i.e. determined on risk), and is based on a gain share methodology. Nkonki will thus be rewarded according to an implementation milestone/s, to be agreed with Transnet. The proposed gain share would be based on 12% to 14% of OPEX savings delivered and 8% to 10% of CAPEX savings delivered and will be subject to the final negotiations with Nkonki. The initial estimation is that the indicative savings that could be achieved out of the activities in paragraph 10l above could range between R1,1 billion and R2,6 billion. This would place the possible gain share fee at approximately R260 million if the savings are achieved. Further savings could be extracted through the other initiatives as described in paragraph 12 and 13 above.

31..1.3. The cost of the cost savings initiatives will be directly funded from the saving delivered based on the gain share methodology.

31..1.4. On the revenue enhancement program the revenue tariffs work will be outcome based and the cost (on a gain share basis of 12% to14%) will be self-funding through the increased tariff that will be finalised with the customers on the take or pay agreements and will be subject to the final negotiations with Nkonki. There is possibility to get an increased tariff on iron ore as one of the contracts is approximately 27% below the required average tariff. This could provide additional annual revenue of R1,065 billion on approximately 35 million tons annual volume. The gain share on this would be approximately R127 million. Further revenues can be enhanced through the other tariff initiatives.

32. Fee based/fixed fee:

32..1.1. The fee based work will require a guarantee to be in place that will ensure that any fees paid will be able to be recovered if no equivalent savings/ additional revenue are produced and realised.

32..1.2. The improvements to the efficiency and effectiveness of the SCM processes as well as the Iron ore and Coal revenue enhancement programs (excluding the tariff work) will be based on a time and material basis. It is expected that the following resources will be required at the rates stipulated below, the expected fees for the fixed services are stated below and will not be exceeded but the final fees and rates will be subject to the final negotiation and contract:

| Project | Full Time Resources | Rate per hour | Duration | Expected total Fixed cost on time and material basis |
|---|---|---|---|---|
| ISCM | 50 | R 938 | 18 to 24months | R100 million |
| Revenue enhancement | 25 | R 938 | Coal - 36 Months Iron ore and customer nerve centre 6 - 12 months | R50 million |
| Total | | | | R150 million |

32..1.3. We anticipate that the cost for efficiency and process improvements as projected above will also be recovered through the cost savings generated by this program as well as the reduced monthly costs that Transnet is currently incurring on its current procurement analytic solution of approximately R50 million for the 24 month period.

**RECOMMENDATION:**

38. The Acquisitions and Disposals Committee to recommend that the Board:
   - Approve the appointment of consultants for:
     - The Cost Savings and Efficiency Proposal for ISCM from Nkonki Incorporated which was approved as a permitted Non-Audit service by the Audit Committee.
     - The Iron ore and Coal revenue enhancement program proposals for Transnet Commercial from Nkonki Incorporated which was approved as a permitted Non-Audit service by the Audit Committee.
   - Delegate authority to the GCE to sign all documentation including the contract documentation.

**Recommended By**

**Garry Pita**
**Group Chief Financial officer**
**Date** 6/2/17

**Recommended By**

**Ndiphiwe Silinga**
**Chief Legal Counsel**
**Date** 06/02/2017

**Recommended By**

**Siyabonga Gama**
**Group Chief Executive**
**Date** 2017.02.07

MINUTES OF THE ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NO. 7-16/17FY HELD ON 13 FEBRUARY 2017 AT 10:05 AT BOARDROOM 4901, 49[th] FLOOR CARLTON CENTRE; 150 COMMISSIONER STREET, JOHANNESBURG

Resolution No/ For Attention

1 CONSTITUTION OF MEETING

1.1 Present

| | |
|---|---|
| Mr BD Shane | Chairperson |
| Mr SI Gama | Member (Group Chief Executive) |
| Ms LC Mabaso | Member |
| Mr ZA Nagdee | Member |

1.2 In Attendance

| | |
|---|---|
| Mr GJ Pita | Chief Financial Officer |
| Mr M Gigenyela | General Manager: Office of the Group Chief Executive |
| Mr N Silinga | Chief Legal Counsel |
| Mr E Thomas | Chief Supply Chain Officer |
| Ms L Beaumont | Company Secretary |
| Ms U Nitlou | Deputy Group Company Secretary |

1.3 Partial Attendance

| | |
|---|---|
| Mr R Nair | Chief Executive: Transnet Freight Rail |
| Ms S Mackay | Chief Procurement Officer: Transnet Freight Rail |
| Ms MA Mosiki | Group Chief Information Officer |
| Ms L Sangqu | Chief Information Officer: Transnet Freight Rail |
| Mr K Reddy | Chief Capital Officer |
| Mr M Shongwe | General Manager, Capacity Development Services: Group Capital |

1.4 Welcome and Signing of Attendance Register

1.4.1 The Chairperson welcomed all members and attendees present, and having noted that there was a quorum, declared the meeting duly constituted. The Attendance Register was circulated for signature.

1.4.2 The Chairperson noted that the GCE was delayed from a prior meeting. The Chairperson requested that the meeting be adjourned on arrival of the GCE for a briefing meeting between the Group Chief Executive, Chief Financial Officer and the Chairperson.

1.5 Adoption of Agenda

1.5.1 The Committee noted the withdrawal of agenda item 5.6, and that agenda item 5.1 is tabled for noting purposes, as it was approved at the Board meeting held on 22 January 2017. The Agenda was adopted subject to those amendments.

2 SAFETY BRIEFING AND EVACUATION PROCEDURE

2.1 The safety and evacuation procedures for the 49th Floor were conducted through video system.

3 DECLARATION OF INTERESTS

3.1 The Declaration of Interests Register was circulated to all members and attendees for signature.

4 LIST OF SUPPLY CHAIN ACRONYMS

4.1 The Committee noted the list of Supply Chain Acronyms.

5 MATTERS FOR DISCUSSION/APPROVAL

*The Chairperson requested that items 5.1, 6.3, 5.2, 6.2, 5.3, 6.1, 5.4, 5.5, 6.4, 7, 8, 9, 10, 11, 12 and 13 be dealt with next. These minutes reflect the order of the meeting.*





Resolution No/ For attention

5.5 Cost Savings and Efficiency for Supply Chain Management (SCM) and Revenue enhancement Proposals

5.5.1 Management took the Committee through the submission as contained in the meeting pack. The submission was taken as read. The purpose of the submission was to request the Committee to recommend that the Board approves the appointment of *Albanki Incorporated* for consultancy services for:

- Cost Savings and Efficiency Proposal for Supply Chain Management ("SCM") which was approved as a permitted Non-Audit service by the Audit Committee; and
- The Iron ore and Coal revenue enhancement program proposals for the Company's Commercial business, which was approved as a permitted Non-Audit service by the Audit Committee; and
- To delegate authority to the Group Chief Executive to sign all documentation including the contract between Transnet and *Albanki Incorporated*.

5.5.2 The Committee noted that the current SCM practices are bureaucratic, complex, contain restrictive red tape, which is administratively overburdening, and are not supporting business to be responsive and effective in both the short and long term.

5.5.3 Management required reshaping and enhancement of the existing SCM practices to ensure that they are more responsive, agile and automated to increase efficiencies, create improved economic value with the ultimate aim of reducing the cost of doing business with the Company. Management further required the SCM function to develop and/or enhance key focus areas in order to identify key initiatives that can be implemented to improve EBITDA. These enhancements must, however remain compliant to the regulatory and governance requirements of the Company. This initiative would include the development of Strategic Supplier Partnerships, development of category strategies and setting up "SWAT" teams to drive cost savings, including price regresses and price reductions, reviewing the processes and procedures and reducing unnecessary bureaucracy thus allowing procurement processes to be responsive to business and to be a true business enabler.

5.5.4 A Member enquired whether the services could be capped within the Committee's authority, namely R500m, and sought clarity on the contractual terms for the said services. Management confirmed that the cumulative delegated authority of the Committee for appointment of Consultants is R500m, and that the costs could therefore be capped within the approval limit of the Committee. It was further agreed that the Board of Directors would be informed of the decision through the standard practice of tabling the Committee's Resolution Register at the next scheduled Board meeting.

The Committee noted that Albanki would be required to commit to specific Supplier Development targets, namely 40% sub-contracting to BO, BWO or BYO companies in order to drive empowerment and transformation in the industry.

5.5.5 The Committee further noted that the baseline comprised two elements, namely a fixed fee on the hourly tariff and a fee based on gain share/contingency. The gain share will be paid at the agreed rate on savings and/or additional revenue actually delivered. The fee-based services will be paid only from the recovered or realised savings/additional revenue derived from the services they have provided. The Committee noted the existing relationship with Albanki who are External Auditors of the Company. Furthermore, the Audit Committee approved these non-audit services, subject to the applicable governance process.

RESOLVED that the Committee approves the appointment of *Albanki Incorporated* for consultancy services up to a maximum cost of R500m as follows:

- Cost Savings and Efficiency Proposal for Supply Chain Management which was approved as a permitted Non-Audit service by the Audit Committee.

CONFIDENTIAL

10

Resolution No/ For attention

iron ore and Coal revenue enhancement program proposals for the Company Commercial which was approved as a permitted Non-Audit service by the Audit Committee

- Delegated authority to the Group Chief Executive to sign all documentation including the contract between Transnet and Nkonki Incorporated. — 7-10/17/FY-04

CONFIDENTIAL

11

Resolution No/ For attention

13 CLOSE

13.1 There being no further business to conduct, the Chairperson declared the meeting closed at 14:47

CHAIRPERSON
DATE: 2017/03/12

DEPUTY GROUP COMPANY SECRETARY
DATE: 2017/03/12

# ANNEXURE "MSM 39"

Office of Buhle Ndlovu, Deputy Group Company Secretary

TRANSNET

TO WHOM IT MAY CONCERN

**EXCERPT FROM THE MINUTES OF THE ACQUISITIONS AND DISPOSALS COMMITTEE MEETING NO. 7-16/17FY HELD ON 13 FEBRUARY 2017 AT 10:05 AT BOARDROOM 4901, 49TH FLOOR CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG**

"5.5 **Cost Savings and Efficiency for Supply Chain Management (SCM) and Revenue enhancement Proposals**

RESOLVED that the Committee approved the appointment of *Nkonki Incorporated* for consultancy services up to a maximum cost of R500m as follows:

- Cost Savings and Efficiency Proposal for Supply Chain Management which was approved as a permitted Non-Audit service by the Audit Committee.
- Iron ore and Coal revenue enhancement program proposals for the Company Commercial which was approved as a permitted Non-Audit service by the Audit Committee.
- Delegated authority to the Group Chief Executive to sign all documentation including the contract between Transnet and *Nkonki Incorporated*. 7-16/17FY-04"

Certified as true excerpt.

Kind regards

**BUHLE NDLOVU**
Deputy Group Company Secretary
Transnet SOC Ltd
Date: 23 April 2018

# ANNEXURE "MSM 40"

# CESSION AND DELEGATION AGREEMENT

between

**TRANSNET SOC LIMITED**

(Registration Number 1990/000900/30)

(Transnet")

and

**ZESTILOR (PTY) LTD**

(Registration Number 2011/008985/07)

("Zestilor")

and

**T-SYSTEMS SOUTH AFRICA (PTY) LTD**

(Registration Number 1989/007547/07)

("T-Systems")



Initials

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Initials

1 DEFINITIONS AND INTERPRETATION

1.1 In this Cession and Delegation Agreement the following words and phrases have the meanings assigned to them hereunder and derivative expressions have corresponding meanings:

1.1.1 "Business Day" means any day other than a Saturday, Sunday or any official public holiday in the Republic of South Africa;

1.1.2 "Ceded Agreement" means the separate Agreement that arises between Transnet and Zestilor after conclusion of this Cession and Delegation Agreement;

1.1.3 "Ceded Services" means the services that Zestilor must render to Transnet under the Ceded Agreement;

1.1.4 "Cession and Delegation Agreement" means this Cession and Delegation Agreement, including any amendments thereof;

1.1.5 "Confidential Information" means, without limiting the generality of the term, any information, discoveries, ideas, concepts, techniques, specifications, drawings, blueprints, diagrams, flow charts and data relating to products, designs, computer programs, business opportunities, customer lists, costing, marketing plans sales figures, technical and financial information, research, development and know-how, and information relating to a Party's business or affairs including that of its associated and affiliated companies (including any direct or indirect holding companies), whether disclosed in writing, orally or by any other means to a Receiving Party, whether before or after the commencement date of this Cession and Delegation Agreement and regardless of whether the information is expressly specified or marked as such or not, and shall include the content of this Cession and Delegation Agreement and any of a Party's Intellectual Property that does not fall within the exclusions in clause 5.7;

1.1.6 "Disclosing Party" means a Party that discloses Confidential Information to the other Party;

1.1.7 "Effective Date" means 1 December 2014;

1.1.8 "Intellectual Property" means any know-how that is not in the public domain, invention (whether or not patented), design, trade mark (whether or not registered), material subject to copyright, goodwill, trade or business name, processes, process methodology and all other similar intellectual property as may exist anywhere in the world and any applications for registration of same;

1.1.9 "MSA" means the Master Services Agreement concluded between Transnet and T-Systems on 17 December 2009.

1.1.10 "Parties" means Transnet, T-Systems, and Zestilor, collectively, and "Party" means any one of them, as the context may indicate;

1.1.11 "Receiving Party" means a Party that receives Confidential Information from another Party;

1.1.12 "Transferred Agreement" means the Addendum to the MSA concluded between Transnet and T-Systems on 30 November 2010

1.2 In this Cession and Delegation Agreement:

1.2.1 to the extent required by the context:

1.2.1.1 words denoting any gender will include the other two genders,

1.2.1.2 the singular will include the plural and vice versa,

1.2.1.3 a reference to natural persons will also be deemed to be a reference to created entities, whether incorporated or unincorporated (including partnerships, trusts, and functionaries acting for governmental, or similar, institutions), and vice versa;

1.2.2 if any provision in a definition is a substantive provision conferring rights or imposing obligations on any Party, the Parties must give effect to it as if it were a substantive provision in the body of this Cession and Delegation Agreement, notwithstanding that it is only in the definition clause;

1.2.3 the headings in this Cession and Delegation Agreement have been inserted for convenience only and will not be used in the interpretation of this Cession and Delegation Agreement;

1.2.4 the words "include" and "including" mean "include without limitation" and "including without limitation". The use of the words "include" and "including" followed by a specific example or examples is not to be construed as limiting the meaning of the general wording preceding it: the application of the *eiusdem generis* rule is excluded.

1.2.5 recordals are binding on the Parties and are not merely for information purposes

2 **INTRODUCTION**

2.1 Transnet and T-Systems concluded the Transferred Agreement.

2.2 The Parties wish to transfer certain rights and obligations arising from the Transferred Agreement to Zestilor, while retaining certain of the rights and obligations therein as between Transnet and T-Systems.

2.3 Due to the interlinked nature of the rights and obligations that are transferred and those that are retained, the Parties have prepared a copy of the Transferred Agreement in which they have indicated, after each clause of the Transferred Agreement, the manner in which they intend to deal with the rights and obligations in that clause. Such copy is attached hereto as Attachment A.

3 **CESSION AND DELEGATION**

3.1 T-Systems hereby cedes its rights under the Transferred Agreement as indicated in Attachment A to Zestilor, who hereby accepts the cession.

3.2 T-Systems hereby delegates its obligations under the Transferred Agreement as indicated in Attachment A to Zestilor who hereby assumes such obligations, subject to clause 7 hereof, dealing with revocation rights.

3.3 The cession and delegation contained in clauses 3.1 and 3.2 take place at no consideration.

3.4 Transnet hereby consents to such cession and delegation.

3.5 Each of the Parties undertakes to co-operate in good faith with the other Parties to give practical effect to the cession and delegation contained in clauses 3.1 and 3.2.

3.6 The cession and delegation contained in clauses 3.1 and 3.2 take effect as from the Effective Date.

4 **FURTHER AGREEMENT**

Attachment A hereto contains terms relating to a number of additional matters, to which the Parties must agree to regulate the manner in which they will, on a practical level, give effect to the division of work under the Transferred Agreement that this Cession and Delegation Agreement introduces. The Parties hereby agree to be bound by such additional terms.

5 **CONFIDENTIALITY**

*Confidentiality Obligations*

5.1 The Parties must, as long as this Cession and Delegation Agreement remains in force, and for a period of 5 (five) years thereafter, keep all Confidential Information they receive from each other in strict confidence and may not publish, employ, exploit or use the Confidential Information in any manner or make the Confidential Information available to third parties save to achieve the purposes of implementing this Cession and Delegation Agreement or to the extent permitted by the Disclosing Party.

5.2 A Receiving Party must restrict the dissemination of the Confidential Information only to employees or professional advisors (who may not be competitors of any of the other Parties) who are actively involved in the achievement of the objectives of this Cession and Delegation Agreement, and then only on a "need to know" basis to persons who are also subject to obligations of confidentiality no less stringent than contained in this Cession and Delegation Agreement.

5.3 A Receiving Party must take all reasonable steps to impress upon other persons coming into contact with another Party's Confidential Information the confidential nature thereof and to protect such Confidential Information in a manner no less stringent than the manner in which it protects its own confidential information.

5.4 Affiliates of T-Systems will not be deemed third parties insofar as Confidential Information is provided to them.

5.5 Each Party undertakes to the other Parties to advise the applicable Party promptly upon becoming aware of any actual, threatened or potential loss, disclosure, or duplication of such other Party's Confidential Information, or the actual, anticipated or potential breach of confidentiality or misappropriation of such Confidential Information.

5.6 Any unauthorised publication or other disclosure of Confidential Information may cause irreparable loss, harm and damage to the Disclosing Party. Accordingly, the Receiving Party hereby indemnifies and holds the Disclosing Party harmless against any loss, action, expense, claim, harm or damage of whatsoever nature suffered or sustained by the Disclosing Party pursuant to a breach by the Receiving Party of the provisions of this Cession and Delegation Agreement.

*Exceptions*

5.7 The confidentiality obligations in this Cession and Delegation Agreement do not apply to Confidential Information, which the Receiving Party can demonstrate:

5.7.1 was lawfully obtained from a third party who is not under obligation of confidentiality with regard thereto; or

5.7.2 was already in the public domain upon conclusion of this Cession and Delegation Agreement or which becomes part of the public domain by publication or otherwise without any violation of the Receiving Party's obligations under this Cession and Delegation Agreement; or

5.7.3 is approved in advance for release by written authorization of the Disclosing Party; or

5.7.4 that constitutes technology ideas, know-how and concepts of third parties (third party know-how), which the third party lawfully disclosed to the Receiving Party, even insofar as such third party know-how incidentally coincides with the Confidential Information; or

5.7.5 that must be disclosed to an assignee in case of assignment of claims to enable the assignee to enforce a claim, if necessary; or

5.7.6 that the Receiving Party provides to third parties for the purpose of protecting the Receiving Party's interests or to exercise its rights under this Cession and Delegation Agreement, provided that such third parties are obliged to maintain secrecy under their professional rules or in terms of a confidentiality Cession and Delegation Agreement no less stringent than in this Cession and Delegation Agreement.

5.8 The Receiving Party bears the burden of proof to establish that any information falls within the exceptions contained in clause 5.7.

5.9 Information disclosed in terms of this Cession and Delegation Agreement will not be deemed to be within the exceptions contained in clause 5.7 merely because such information is embraced by more general information in the public domain or in a Party's possession. Any combination of features will not be deemed to be within the aforegoing exceptions merely because individual features are in the public domain or in a Party's possession, but only if the combination itself and its principle of operation are in the public domain or in a Party's possession.

*Forced Disclosure*

5.10 A Party may disclose Confidential Information to satisfy an order of a court or to comply with the provisions of any law or regulation in force from time to time (including a request in terms of the Promotion to Access to Information Act, No 2 of 2000, as amended), provided that such Party

5.10.1 must inform the applicable other Party of its obligation to disclose before disclosure.

5.10.2 may disclose the Confidential Information only to the extent legally required.

5.10.3 must continue to apply the provisions of this Cession and Delegation Agreement to such Confidential Information for all other purposes.

*Title*

5.11 Each Party acknowledges that the other Parties' Confidential Information is proprietary to the other Parties and that its disclosure does not confer any rights in or associated with such Confidential Information to the Receiving Party.

*Return of Information*

5.12 A Disclosing Party may at any time request a Receiving Party to return any Confidential Information or other material containing pertaining to, or relating to the Confidential Information and may, in addition, request the Receiving Party to furnish a written statement to the effect that upon such return, it has not retained in its possession, or under its control, either directly or indirectly, any such material.

5.13 Alternatively to clause 5.12, a Receiving Party must, if asked to do so by a Disclosing Party, destroy or irrevocably delete such material and furnish the Disclosing Party with a written statement to the effect that such material has been destroyed or irrevocably deleted (unless the Receiving Party is required by any law to retain a record of such material, but then only to the extent and strictly for the purposes embodied in such obligation).

5.14 The Receiving Party must comply with a request in terms of clauses 5.12 and 5.13 within 5 (five) days of receipt of such request.

*Injunctive Relief*

5.15 A breach of this clause 5 may cause a Disclosing Party loss for which a remedy in damages might not be adequate. Therefore, in addition to remedies otherwise available to a Party, a Party may seek injunctive relief to prevent or mitigate a breach or threatened breach of this clause 5, without having to demonstrate that it has no other adequate remedy in law.

6 **DOMICILIUM AND NOTICES**

6.1 The Parties choose the addresses as set out hereunder as the addresses where formal notices may be served on them ("Service Address")

**T-Systems:**

Columbia Avenue,





Initials

International Business Gateway

New Road,

Midrand,

South Africa

Attention: Head of Legal;

**Transnet:**

47th Floor, Carlton Centre,

150 Commissioner Street,

**Johannesburg, 2001**

Telefax: 011 – 308 2699

Marked for the attention of: General Manager, Group Legal

**Zestilor:**

7th Floor, Sandton Office Towers,

Sandton City,

Johannesburg 2196,

Attention: Santosh Kumar Choubey

6.2 A Party may vary its Service Address to any other address in the Republic of South Africa which is not a post office box or poste restante by written notice to the other Party. Such change will only become effective on the date of receipt thereof in accordance with clause 6.3

6.3 Any formal notice served by a Party on another Party must be in writing. Any such notice which:

6.3.1 is delivered by hand will be deemed to have been received by the addressee on the first Business Day after the date of delivery;

6.3.2 is posted by pre-paid registered post from an address within the Republic of South Africa to the addressee at its then applicable Service Address,

will be deemed to have been received on the 10th Business Day after the date of posting

6.4 The Parties may correspond via email or telefax for operational reasons, but no Party may give any notice relating to a dispute, demand, breach, legal proceedings, renewal, cancellation or termination by way of email or telefax. Such formal notice must be signed by hand on paper and either delivered by hand or by registered post as contemplated in clause 6 3

7 REVOCATION RIGHTS

7.1 If Transnet lawfully terminates the Ceded Contract for reasons other than for Transnet's convenience, T-Systems must again provide the Ceded Services to Transnet, as from the day immediately following the day of termination of the Ceded Contract ("Resumption Date"). In such event the rights ceded to Zestilor and obligations assumed by Zestilor under this Cession and Delegation Agreement will revert to T-Systems and, from the Resumption Date, again become rights and obligations between Transnet and T-Systems, except to the extent that Transnet and T-Systems may agree differently in writing.

7.2 Zestilor agrees that in such event, it will co-operate with T-Systems in good faith to transfer Zestilor's employees who provided the Ceded Services during the period of thirty (30) days prior to the Resumption Date to T-Systems in terms of Section 197 of the Labour Relations Act

8 GENERAL

8.1 This Cession and Delegation Agreement constitutes the whole agreement between the Parties relating to the subject matter hereof. No amendment, alteration, variation, novation or consensual cancellation of this Cession and Delegation Agreement (including this clause 8.1) or addition thereto will be of any force or effect unless reduced to writing and signed by the Parties.

8.2 The rights and obligations of the Parties relating to the subject matter of this Cession and Delegation Agreement are provided for exclusively in this Cession and Delegation Agreement. General terms and conditions of the Parties are excluded even if they are contained in or reference is made to them in an order, order confirmation or other documents or in an oral agreement.

8.3 No waiver of, or failure, delay, relaxation or indulgence on the part of a Party in exercising any power or right conferred on such Party in terms of this Cession and Delegation Agreement will operate as a waiver of such right, unless it is expressed in writing and signed by the Party giving the same, and it will be effective only in the specific instance and for the purpose given. No single or partial exercise of any such power or right will preclude any other or further exercises of that power or right in terms of this



Initials

Cession and Delegation Agreement.

8.4 Each Party must bear its own costs arising from the negotiation, and conclusion of and performance under this Cession and Delegation Agreement.

8.5 If a court declares a provision of this Cession and Delegation Agreement to be invalid, the validity of the other provisions remains unaffected. The Parties must immediately negotiate in good faith to replace the invalid provision with a valid provision that comes as close as legally possible to the intent of the invalid provision

8.6 Any provision of this Cession and Delegation Agreement that contemplates performance or observance subsequent to termination or expiration of this Cession and Delegation Agreement or which must necessarily continue to have effect after such expiration or termination, will survive the termination or expiration of this Cession and Delegation Agreement, notwithstanding that the provision itself does not expressly provide for this.

8.7. Nothing in this Cession and Delegation Agreement constitutes any Party as the agent, principal, representative, joint venturer or partner of any other Party, and no Party may represent the contrary to any third party.

8.8 No Party may cede its rights or delegate its obligations under this Cession and Delegation Agreement without the prior written consent of the other Parties, provided that T-Systems may cede its rights or delegate its obligations to any company that it controls, that controls it, or that is under common control with it without the other Parties' prior consent.

8.9 This Cession and Delegation Agreement may be signed in two or more counterparts and the signed counterparts, collectively, will constitute a binding agreement between the Parties.

8.10 The provisions of this Cession and Delegation Agreement were settled by negotiation and each Party was free to secure independent legal advice. The rule of construction that clauses must be interpreted against the Party principally responsible for drafting will, therefore, not apply in the interpretation of this Cession and Delegation Agreement.

8.11 This Cession and Delegation Agreement will be governed, interpreted and implemented in accordance with the laws of the Republic of South Africa

8.12 The use of any expression in this Cession and Delegation Agreement covering a process available under the laws of the South Africa such as, without limiting the interpretation of this particular sub-clause, "winding-up" will, if any of the Parties is subject to the law of any other jurisdiction, be construed as including any equivalent or analogous proceedings under the law of such defined jurisdiction.

8.13 This Cession and Delegation Agreement supersedes all other agreements relating to the subject matter of this Cession and Delegation Agreement.

8.14 No Party may rely on any representation made prior to the conclusion of this Cession and Delegation Agreement, even if such representation induced another Party that wishes to rely on it, to conclude the Cession and Delegation Agreement, unless that representation is recorded in this Cession and Delegation Agreement.

**SIGNED** at Jhb on 01.12.14

For: TRANSNET SOC LIMITED

Name: Brian Molefe.

Capacity: GCE.

Who warrants that he/she is authorised to do so

Name:

Capacity

Who warrants that he/she is authorised to do so



Initials

**SIGNED** at [illegible] on [illegible]

For: T-SYSTEMS SOUTH AFRICA (PROPRIETARY) LIMITED

Name: JONAS T FOGOSHI

Capacity: VP SALES

Who warrants that he/she is authorised to do so

Name [illegible]

Capacity [illegible] Legal

Who warrants that he/she is authorised to do so

**SIGNED** at Midrand on 28/11/2014

For: ZESTILOR (PROPRIETARY) LIMITED

Name: SANTOSH CHOUBEY

Capacity: MANAGER.

Who warrants that he/she is authorised to do so

Initials

# ANNEXURE “MSM 41”

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner Str. Johannesburg
2001

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TRANSNET

**MEMORANDUM**

www.transnet.net

**To:** Sharla Pillay, Acting Group Chief Executive (GCE)

**From:** Mohammed Mahomedy, Acting Group Chief Financial Officer (GCFO)
Mantsika Matooane (Chief Information Officer)
Garry Pita, Group Chief Supply Chain Officer (GCSCO)

**Date:** 30 October 2013

**Subject:** **RFP No. GSM/13/04/0722 for Provision of Network Services – Request for approval to approve the process, award contract and issue a Letter of Intent (LOI) inviting Neotel to further negotiations as the preferred bidder of this RFP**

**PURPOSE OF SUBMISSION:**

1. To request the Group Chief Executive (GCE) to:

- Approve the procurement process and award of business to Neotel (Pty) Ltd;
- Sign the Letter of Intent (LOI) for the preferred bidder (See Annexure Q);
- Sign letters of regret for the four (4) unsuccessful bidders (See Annexure R) and
- Sign the letter to extend the current Neotel contract (Annexure T).

**BACKGROUND:**

2. The current five (5) year Neotel contract for Network Services was established through a sale agreement of Transtel to Neotel. This agreement was due to expire on 31 March 2013 and the Board subsequently approved five (5) and two (2) months extensions respectively and the current expiry date is 31 October 2013.

3. All Transnet Operating Divisions (ODs) make use of this contract for their Network Services requirements and the contract is managed at Group level by EIMS previously known as Group ICT.

4. The need for the Network Services RFP came about as a result of the imminent expiry of the Network Services agreement with Neotel (Pty) Ltd and the Transnet Board requested that management should test the open market for this requirement.

**DISCUSSION**

5. A Network Services sourcing strategy and RFP was prepared by the Cross Functional Sourcing Team (CFST) that consisted of technical representatives from all ODs. This sourcing strategy was recommended by the Executive Committee (EXCO) and Board Acquisitions and Disposal Committee (BADC) and approved by the Board of Directors (Board) in February 2013. The subsequent amendments on the sourcing strategy pertaining to the contract period and technical threshold were further approved by the BADC on 29 May 2013.

6. The Board delegated authority to approve the Sourcing Strategy, RFP, Advert and Award to the Group Chief Executive Officer subject to approval of the BADC and the BADC concurred with that recommendation. Refer to Annexure B of the attached TEAR report for the BADC resolution delegating authority to the GCE as indicated above.

7. An RFP was sent out to the market on 14 June 2013 and closed on 13 August 2013 after being extended twice as per requests from the bidders and approved by the GCE. A compulsory briefing session was held on 27 June 2013 and all nineteen (19) bidders who purchased the RFP document attended the briefing session. Only five (5) bidders responded to the RFP.

8. Bidders were evaluated against specific criteria as set out in the Request for Proposal (RFP) that was approved by the GCE on 09 June 2013. The table below indicates the number of bidders that passed at each of the evaluation stages.

| Evaluations | | | | |
|---|---|---|---|---|
| **Stage 1** | **Stage 2** | **Stage 3** | **Stage 4** | **Stage 5** |
| Administrative Responsiveness | Substantive Responsiveness | Technical Evaluation | Commercial Evaluation | Award incl. Post Tender Negotiations |
| 5 | 4 | 3 | 3 | 1 |

9. It was concluded during the technical evaluation process that three (3) bidders namely Neotel (Bidder 1), Dimension Data (Bidder 3) and T-Systems (Bidder 5) passed stage 1 to 4 of the evaluation process.

10. The preliminary Network Services evaluation results in the form of a Tender Evaluation and Recommendation (TEAR) report were presented to Management for review on 01 October 2013. Management identified scoring discrepancies and requested that the Cross Functional Evaluation Team (CFET) should re-moderate areas where there were huge scoring discrepancies to be in line with Section 18.4.1(iii) of the PPM that stipulates that an outlying score/s should as a general guideline be determined where there is a point differential of more than 4 points on the 10 point scale as compared to the other scores. A re-moderation session was held at Carlton Centre on 04 October 2013 where all the impacted service towers were re-moderated and agreed upon by the entire evaluation team including Transnet Internal Audit (TIA).

11. Transnet has also considered the issue of Vodacom acquiring Neotel, its assets and customer base as part of this RFP. Neotel has however indicated as part of the process

that this risk will be mitigated and should the Due Diligence being conducted by Vodacom prove to be positive for the sale and should the Competition Commission approve the sale Neotel will continue to fulfill its mandate as part of Vodacom and offer services under the agreed Terms and Conditions between Neotel and Transnet. Should the sale not be concluded Neotel has also committed to continue delivery of services to Transnet on the proposed services as described in their RFP response with the necessary commitment from their shareholders.

12. A recommendation for approval of Due Diligence and negotiations was submitted to the GCE for approval upon conclusion of commercial and B-BBEE evaluations. The GCE approved the Due Diligence and negotiations request on 14 October 2013 and a copy of the approved memorandum is included as Annexure C of the attached TEAR report. Due Diligence and negotiations letters were issued to the bidders on 14 October 2013 and the process commenced on 16 October 2013.

13. The Due Diligence process kicked off with discussions on the bid proposals with the individual shortlisted bidders to clarify their assumptions and enable them to submit their Best and Final Offers (BAFO) to Transnet. The process progressed to site visits to the three (3) shortlisted bidders' facilities to conduct interviews with some of their key resources and to conduct a facilities inspection to determine their technical capability to execute on the contract if successful on this RFP. The Due Diligence process culminated in conducting of telephonic interviews with two of the three references that were provided by each bidder to establish their performance track-record on the network related contracts which they have with their current customers. The above process was finalised on 23 October 2013 and a Due Diligence report that was compiled by the CFST is included as Annexure O of the Network Services TEAR report.

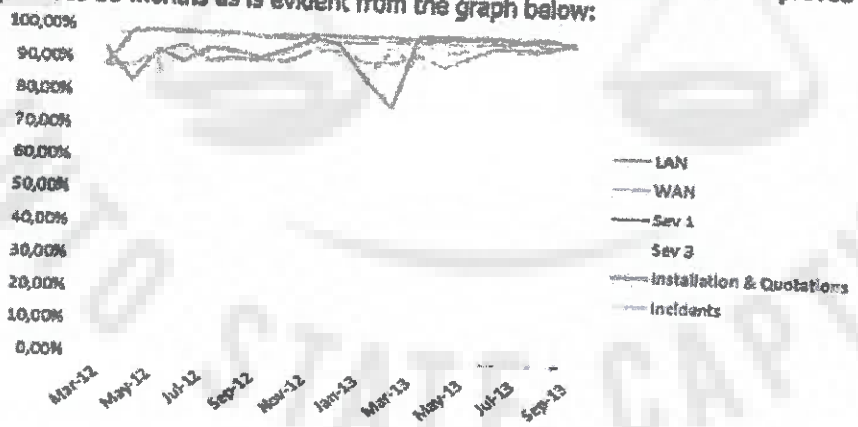
14. The Network Services TEAR report detailing the entire RFP process is included as **Appendix 1** of this memorandum. The High Value Tender (HVT) Gateway reports 1 and 2 provided by Transnet Internal Audit (TIA) as required by the HVT process indicates full compliance (green audit) to the Procurement process. The HVT Gateway 3 report indicated a need for improvement due to the rounding-off of technical scores and the possible conflict of interest issue between T-Systems and Detecon Consulting. The above mentioned issues have already been mitigated through the rounding-off permission that was received from the National Treasury and a written Affidavit from T-Systems confirming that there was never any information sharing between them and Detecon Consulting. Copies of the TIA Gateway Reviews reports are included as Annexure P of the attached TEAR report.

15. Table 2 below indicates project timelines for the remaining activities to the completion of this procurement event for the Network Services RFP:

| Item | Activity | Planned Completion Date |
|---|---|---|
| 1 | Stage 1: (Administrative Evaluations & Moderation) | Finalised |
| 2 | Stage 2: (Substantive Evaluations & Moderation) | Finalised |

| | | | |
|---|---|---|---|
| governance | force supplier to enact the appropriate governance with the support from bidders internal governance functions;<br>• Transnet will require independent certification of competence of project delivery function;<br>• SLA's will also be applicable on future project with service credits linked to the project budgets and timelines. | governance | force supplier to enact the appropriate governance with the support from bidders internal governance functions;<br>• Transnet will require independent certification of competence of project delivery function;<br>• SLA's will also be applicable on future project with service credits linked to the project budgets and timelines. |
| | | Overall quality of service delivery | • Service credits are being charged;<br>• Focus on continuous service improvement. |
| | | **Poor Financial Management** | • Project launched to identify weaknesses and to improve current financial reporting;<br>• Internal Audit initiated to validate the accuracy of current billing. |

17. Considering the factors above management is confident that any risk linked to the recommend bidder can be mitigated, if not already done by implementing the new contract and more onerous service level agreements as included in the RFP process.
18. The proposed bidder's overall service delivery trends have also improved over the previous 18 months as is evident from the graph below:



**RECOMMENDATION:**

24. To request the Group Chief Executive (GCE) to:

- Approve the procurement process and award of business to Neotel (Pty) Ltd;
- Sign the Letter of Intent (LOI) for the preferred (See Annexure Q);
- Sign letters of regret for the four (4) unsuccessful bidders (See Annexure R); and
- Sign the letter to extend the current Neotel contract (Annexure T).

COMPILED BY

Macdonald Maluleke
Commodity Manager: Group Strategic Sourcing
Date:

RECOMMENDED / ~~NOT RECOMMENDED~~

Mandla Dube
Category Manager: Group Strategic Sourcing
Date: 30/10/2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Fanie van der Walt
Executive Manager: Group Strategic Sourcing
Date: 31/10/2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Gerrie van der Westhuizen
Executive Manager: Office of the CIO
Date: 31/10/2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Peter Volmink
Executive Manager: Governance & Compliance
Date: 31 OCTOBER 2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Yusuf Loonat
Executive Manager: EIMS Service Delivery
Date: 31/10/2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Garry Pita
Group Chief Supply Chain Officer
Date: 31/10/13

RECOMMENDED / ~~NOT RECOMMENDED~~

Mantsika Matooane
Chief Information Officer
Date: 31/10/2013

RECOMMENDED / ~~NOT RECOMMENDED~~

Mohammed Mahomedy
Acting Group Chief Financial Officer
Date: 31. 10. 2013

APPROVED / ~~NOT APPROVED~~

Sharla Pillay
Acting Group Chief Executive
Date: 31 October 2013

Please obtain letter from Neotel CEO to confirm that they will fulfill their mandate in the event of Vodacom acquiring Neotel (This should be part of Vodacom due diligence).

# ANNEXURE "MSM 42"

Transnet SOC Ltd
Registration
Number
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TRANSNET

**MEMORANDUM**

www.transnet.net

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**To:** Anoj Singh, Group Chief Financial Officer (GCFO)
Mantsika Matooane (Chief Information Officer)
Garry Pita, Group Chief Supply Chain Officer (GCSCO)

**From:** Brian Molefe, Group Chief Executive (GCE)

**Date:** 20 November 2013

**Subject:** **RFP No. GSM/13/04/0722 for Provision of Network Services – Request for approval to approve the process, award contract and issue a Letter of Intent (LOI)**

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**PURPOSE OF SUBMISSION:**

1. To inform the Group Chief Financial Officer, Group Chief Information Officer and the Group Chief Supply Chain officer of my decisions to award the above mentioned business to T-Systems South Africa in terms of your request in your memorandum dated 31 October 2013.

**BACKGROUND:**

2. Your previous correspondence addressed to me dated 30 October 2013 with subject "RFP No. GSM/13/04/0722 for Provision of Network Services – Request for approval to approve the process, award contract and issue a Letter of Intent (LOI) inviting Neotel to further negotiations as the preferred bidder of this RFP" (Annexure A) and the TEAR report (Annexure B) which accompanied this letter refers.

3. This correspondence requested me to:
   a. Approve the procurement process and award of business to Neotel (Pty) Ltd;
   b. Sign the Letter of Intent (LOI) for the preferred bidder;
   c. Sign letters of regret for the four (4) unsuccessful bidders; and
   d. Sign the letter to extend the current Neotel contract.

**PROCUREMENT PROCESS**

4. In approving the procurement process the following must be taken into account by the Acquisition Council (AC), which in this case is the Transnet Board, which sub-delegated this responsibility to the Transnet GCE:
5. The Role of the AC is set out in par 20.2 of the PPM, October 2013, which is set out below:

*public company and its sole shareholder is the Government of the Republic of South Africa. For this reason, business transactions with entities that could harm Transnet's image should be avoided;*

*20.2.13 price and other commercial terms are market related; and*

*20.2.14 The award of business does not pose any other legal or material risks to Transnet that has not been mitigated.*

***20.3 RISK EVALUATION***

*Upon receiving a recommendation to award business to a particular Bidder, the AC may at its own discretion call for a risk evaluation on the Bidder if it is of the opinion that this was not considered at the evaluation stage. If on reasonable grounds it is determined that there is a material risk involved in awarding the business to that particular Bidder, the AC may, depending on the likelihood and consequence of the risk materialising recommend one of the following:*

- *not awarding to the Bidder;*
- *awarding part of the business to the Bidder; or*
- *splitting the business between the Bidder and another Bidder.*

*The concept of material risk must be interpreted restrictively and be limited to instances where Transnet would be severely prejudiced by the award of business to a particular Bidder.*

***20.4 SPLITTING OF BUSINESS***

*The AC should enquire whether the splitting of the award of business was considered during evaluation, as this is a feasible mechanism to promote the development of new entrants into the market. Transnet's standard bid conditions allow for the selection of multiple suppliers or the award of the whole, or any part of a Bid to any particular Bidder. Transnet may also choose not to make an award if there are valid grounds for doing so.*

*Bidders who qualify their Bids on the basis that the whole Bid should be accepted (in conflict with the bid conditions) must be advised that the restriction must be withdrawn before their Bid can be considered.*

***20.5 DISAGREEMENT REGARDING AWARD OF BUSINESS***

*20.5.1 Should a dispute arise between the recommending officer(s) and the AC regarding a submission after the AC has referred the matter back to the recommending officer for re-motivation, the matter must be escalated to the Entity's CEO for a final decision.*

*20.5.2 Where the recommendation of the evaluation team conflicts with the opinion of the end user, the matter must be referred to the AC for a ruling.*

***20.6 NON AWARD / CANCELLATION OF BIDS***

*20.6.1 Non award of business must be approved by the relevant AC. A motivation for non award may be considered by the AC at any stage of the process before the Successful Bidder is finally selected and informed about the bid award. Once a Successful Bidder has been selected and informed about the outcome of the bid*

20.2 *"**THE ROLE OF THE AC DURING ADJUDICATION***

*The function of the AC is to validate both the process related aspects as well as the commercial aspects of the bid process. The AC is required to satisfy itself that all Bidders were treated fairly in the bidding process and that the process was conducted in accordance with the applicable regulatory framework and Transnet's internal rules. The AC is also required to determine that the price to be paid by Transnet is market related, that the commercial terms and conditions are fair and reasonable and that the award of business is in the best interests of Transnet.*

*Factors to be considered during adjudication include whether:*

20.2.1 *the bid was advertised for a reasonable period of time and in the appropriate media;*

20.2.2 *all Bids are still valid i.e. still within the validity period. It is important to note that for the purposes of adjudication, bids are required to remain valid only until the matter is considered by the AC provided that the AC approves the process. Should the AC not approve the matter, the validity period must be timeously extended;*

20.2.3 *communication with Bidders after the closing date was properly authorised and conducted in a fair manner;*

20.2.4 *Bidders were evaluated against the evaluation criteria stated in the RFP;*

20.2.5 *the scoring of Bidders was reasonable, rational and in accordance with the scoring methodology;*

20.2.6 *the recommended Bidder scored the highest points overall. If not, whether the recommendation to award the contract to another Bidder is based on other objective criteria*

20.2.7 *the recommended Bidder is not on the Transnet List of Excluded Bidders, the Treasury list of Bid Defaulters or the Treasury database of Restricted Suppliers;*

20.2.8 *the recommended Bidder has legal capacity to enter into a contract;*

20.2.9 *the contract is to be awarded to the same business enterprise as the one which submitted the Bid;*

20.2.10 *the recommended Bidder submitted a valid and original tax clearance certificate, VAT certificate (where applicable) and whether the recommended Bidder complies fully with all legal requirements stated in the RFP. Note that in terms of the Preferential Procurement Regulations 2011 no business may be awarded to a person whose tax matters have not been declared to be in order by SARS;*

20.2.11 *the recommended Bidder is not insolvent, in receivership, bankrupt or being wound up, has his affairs administered by a court or judicial officer, has suspended his business activities or is subject to legal proceedings in respect of the aforegoing;*

20.2.12 *the award of business to the recommended Bidder would not be harmful to Transnet's image. In this regard, it must be borne in mind that Transnet is a* *c) no acceptable bids are received. [If all bids received are rejected, Transnet must review the reasons justifying the rejection and consider making revisions to the specific conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids].*

*When the AC authorises a non award on the grounds of a) or b) above, all Bidders should be reimbursed for the bid document fee, if bid documents were sold.*

*20.6.9 The decision to cancel a bid in terms of paragraph 20.6.8 must be published in the media in which the original bid invitation was advertised."*

**FURTHER CONSIDERATIONS TAKEN INTO ACCOUNT RELATED TO THE APPOINTMENT OF NEOTEL, THE PREFERRED BIDDER IN TERMS OF THE TEAR REPORT:**

6. I have given consideration to your recommendation as per your previous correspondence mentioned earlier as well as section 20.5 of the Procurement Procedures Manual which states that, should a dispute arise between the recommending officer(s) and the Acquisition Council (AC) regarding a submission after the AC has referred the matter back to the recommending officer for re-motivation, the matter must be escalated to the Entity's CEO for a final decision.

7. I have the following specific concerns with your recommendation and responses to me, including the responses to me in the various meetings held with the recommending officers for re-motivation, which is discussed further in this document:
   a. Counterparty Risk and alienation of state assets;
   b. Concentration risk as Transnet is Neotel's largest client;
   c. BBBEE Partners
   d. Information Security incident; and
   e. CCTV camera exposures.

**Counterparty Risk and alienation of state assets;**

8. Government's intention with the sale of the Transnet Wide-Area Network (WAN) to Neotel was to create a second fixed line operator. I don't believe that Neotel met this mandate due to the fact that they have had very little market penetration and Neotel has recently announced that they have entered into negotiations to sell this network to Vodacom which could be perceived to be alienation of state assets.

9. Lastly, Transnet did not consider Vodacom's ability to manage the Neotel infrastructure and should the sale transaction of Neotel to Vodacom realize this will expose Transnet to unnecessary counterparty risk.

**Concentration risk as Transnet is Neotel's largest client**

10. Transnet is currently Neotel's biggest single client which exposes Transnet to unnecessary concentration risk.

**BBBEE Partners**

11. Neotel has not delivered against its BEE mandate which was part of the initial sale of state assets to Neotel and has in fact diluted black ownership of the company as is evident from the correspondence I received from Mr. Kennedy Memani, the Chairman of Nexus Connexion the BEE partner to Neotel. (Annexure C)

**Information Security Incident**

12. During 2011, Transnet Internal Audit (TIA) was requested by Management to perform a review on the Neotel Network Outsources IT Services. TIA issued a report highlighting certain weaknesses as it related to firewalls in October 2011.
13. Network traffic was analysed by Neotel on an ongoing basis, focusing on the highest volumes first to build required rules to resolve audit findings.
14. On 30 May 2012, Neotel indicated that they have found traffic on the network which were not known to them. Management made a decision not to block this traffic as it could potentially be related to operational systems and blocking this could result in business interruptions;
15. Group EIMS decided to do scanning of their own to identify the source of this unknown traffic;
16. On the 5 June 2012, the unknown traffic was identified as foreign traffic and IP addresses from 5 different countries were found on the Transnet network within a period of 24 hours;
17. Should skilled and determined third parties have made use of the vulnerabilities they may have been able to access servers and resources in the Transnet environment which may include servers containing:
    a. Financial information;
    b. Operational information; and
    c. Other sensitive / confidential information.
18. Although Transnet management and Neotel has implemented certain actions I am of the view that the activities specifically as it relates to Neotel was not adequate and exposed the organisation to unnecessary risk.

**CCTV Network issues**

19. TNPA identified that a number of their CCTV cameras in various ports were not operational or operating as intended as a result of potential poor workmanship and network issues. I am of the view that Neotel had a role to play as far as the network supporting these cameras are concerned and this concern is more reason for me to disagree with the recommendation made.

**GCE'S CONCLUSION OF THESE CONCERNS**

20. \Due to the above I have fundamental concerns in award a 3 year network contract to Neotel. This network is the heart of the Transnet business and I am of the view that awarding the business to Neotel will expose Transnet to unnecessary risk.

**APPOINTMENT OF T-SYSTEMS SOUTH AFRICA**

21. Post the close of the final offers being submitted T-Systems indicated that they unfortunately due to the strict timelines set by Transnet only managed to get confirmation from their shareholder on certain pricing elements and that they would be in a position to reduce the price submitted the week before by a further R248 million.

22. I approve that the R248 million be taken into consideration as part of T-Systems best and final offer as the commitment was made in writing to Transnet and shortly after the best and final offers have closed and I don't believe that any other bidders were prejudiced by this.
23. I further do not believe it is necessary to request another best and final offer from any of the vendors as all 3 preferred bidders were given the opportunity to confirm if the prices submitted are accurate and if they omitted anything.
24. As per the TEAR report, should this R248 million be taken into account and business not be awarded to Neotel due to the risks stated above, T-Systems would be the preferred bidder.
25. Management must ensure that more favourable prices are agreed with T-Systems to at least be at a similar level to the prices submitted by Neotel as part of the post tender negotiations.

**APPROVAL:**

26. Based on the explanations given above, I request that the Group Chief Financial Officer, Group Chief Information Officer and the Group Chief Supply Chain officer note the my decisions to award business to T-Systems South Africa in terms of section 20.5 of the Procurement Procedure Manual (PPM) and that I am overriding the recommendation made in the TEAR report.
27. Please find the following attached:
    a. Signed letter of intent to T-Systems South Africa (Annexure D)
    b. Signed letter of regrets to four (4) unsuccessful bidders (Annexure E); and
    c. Signed letter to extend the current Neotel contract (Annexure F).

**APPROVED / ~~NOT APPROVED~~**

Brian Molefe
Group Chief Executive
Date: 20.11.13.

Date: 20 November 20132013

Reference: LOI/GSM 13/04/0722

T-SYSTEMS SA (PTY) LTD
International Business Gateway,
New Road,
Midrand
1685

Dear Mr. Schoonbee

**RE : LETTER OF INTENT FOR THE PROVISIONING OF NETWORK SERVICES TO TRANSNET SOC LIMITED FOR A PERIOD OF THREE [3] YEARS WITH AN OPTION TO EXTEND FOR A FURTHER TWO [2] YEARS**

Pursuant to Transnet's Request for Proposal [RFP Number GSM/13/04/0722], we wish to inform you that we are pleased to confirm that your company has been identified as a preferred bidder for the provisioning of Network Services [the Services] for a period of three [3] years with an option to extend for a further two [2] years to Transnet SOC Ltd, subject to the conditions precedent set out in section 1 below.

The Parties to this LOI are:

(1) **Transnet SOC Ltd [Transnet]**, a State Owned Company and the procurer of the Services. [Registration Number 1990/000900/30]; together with

(2) **T-Systems South Africa (Pty) Ltd**, [the Service Provider] [Registration Number 1989/007547/07]

Transnet wishes to conclude a MSA (Master Services Agreement) with the Service Provider for the provision of the Services which, if mutually agreed by the Parties, will be documented and effected in accordance with a three year [3] contract [the MSA] between the Parties.

The Parties are desirous of successfully concluding contract negotiations and thereafter executing the MSA to enable the Service Provider to provide the Services detailed thereto.

In the interim there will be an extension to the existing contract with Neotel (Pty) Ltd for the provision of the current services until such time that the MSA and mutually agreed transition plan as per the RFP is concluded.

The purpose of this Letter of Intent [LOI] is to document the intentions of the Parties in respect of the conclusion of the MSA between Transnet SOC Ltd and T Systems South Africa, or until 120 [One Hundred and Twenty] days have elapsed from date of issue of this LOI, whichever event should occur first. Should the parties fail to reach agreement or conclude the MSA within 120 [One Hundred and Twenty] days, then Transnet reserves the right to approach the alternate preferred bidders.

**NOW THEREFORE IT IS AGREED**

## 1. Conditions Precedent

With reference to the Service Provider's offer [Reference GSM 13/04/0722], Transnet wishes to finalise the MSA, the Towers of Service contractual conditions and associated Pricing, the detail of the Supplier Development commitment, which must be a minimum of 30% (Thirty percent) of the total contract value and B-BBEE details of the Services to be provided and other matters in order to conclude the Agreement with the Service Provider. In the interim, the under-mentioned conditions precedent will apply:

1.1 The Parties agree to work towards concluding an MSA to provide the Services over a period of three [3] years commencing from date of signature of the yet to be concluded Master Services Agreement.

1.2 The Parties agree to use this document as a proxy for the binding legal Agreement and under its authority Transnet intends to request;

1.2.1 That the incumbent Service Provider provide will provide the existing services under the current contract, until such time that the MSA is formally negotiated and subsequently concluded between the Transnet and T-Systems South Africa.

1.3 Transnet will discuss with the new Service Provider and agree the terms and conditions of the MSA.

1.4 T-Systems will provide more details and confirm the following:

1.4.1 Supplier development commitment, value summary and submit a supplier development plan which sets out the details and addresses how the supplier development plan will support Government's National Development Plan as it relates to the ICT sector, which must be supplied and accepted by Transnet. T-Systems will supply Transnet with the updated supplier development commitment, updated supplier development value summary as well as a supplier development plan setting out the details of this commitment within 30 days of signature of this letter of intent.

1.4.2 Transnet will aim to negotiate a Buy-back or lease options of the copper lines to outlying sites which are currently owned by Neotel including its possible pricing;

1.4.3 Options which need to be explored with the T-Systems and the current service provider on which assets need to be replaced and which assets can be sweated and the corresponding impact of these on SLA's and overall pricing.

2. **Miscellaneous**

Neither Party shall reveal the content of this LOI or anything disclosed to the other Party in pursuance hereof to any third party, except with the prior express written consent of the other Party, and then only to the extent required to facilitate progression of the Negotiations.

The contractual documents will be drafted by Transnet and be subject thereafter to final agreement between the Parties. Pending the final approval of the Agreement by both Parties, the Parties hereby attest to the speedy resolution of all outstanding matters in order to finalise the MSA within 120 [One Hundred and Twenty] days from date of signature hereof.

Thus duly signed at Johannesburg South Africa on this 20th day of November 2013 on behalf of:

**Transnet SOC Ltd**

**WITNESSES**

1 ..............................

2 ..............................

NAME: Brian Molefe

DESIGNATION: Group Chief Executive

Thus duly signed at .............................., South Africa on this .............. day of .............................. 2013 on behalf of:

**T-Systems South Africa (Pty) Ltd**

**WITNESSES**

1 ..............................

2 ..............................

NAME: Gert Schoonbee

DESIGNATION: Managing Director

# ANNEXURE "MSM 43"

Transnet SOC Ltd
Registration Number
1990/000900/30

Carlton Centre
150 Commissioner
Str. Johannesburg
2001

P.O. Box 72501
Parkview
South Africa, 2122
T +27 11 308 2250
F +27 11 308 1269

TRANSNET

**MEMORANDUM**

www.transnet.net

**To:** Brian Molefe, Group Chief Executive (GCE)

**From:** Anoj Singh, Group Chief Financial Officer (GCFO)
Garry Pita, Group Chief Supply Chain Officer (GCSCO)
Mantsika Matooane, Group Executive-EIMS

**Date:** 05 December 2014

**Subject: Request for approval of contract award for the Network Services RFP**

**PURPOSE OF SUBMISSION:**

1. The purpose of this submission is to request the Group Chief Executive (GCE) to:

- Approve the award of the Network Services contract to Neotel (Pty) Ltd "Neotel" for a period of five (5) years with effect from 01 December 2014 to 30 November 2019; and
- Sign the Master Services Agreement (MSA) for provision of Network Services between Transnet SOC Limited and Neotel. (See Annexure A); and
- Sign a letter informing Neotel that Transnet will not invoke it's rights to Step-in as per clause 51.1.5 of the Master Services Agreement, should the Vodacom (Pty) Ltd purchase of Neotel be approved; (Annexure B) and
- Sign a letter informing Neotel that Transnet will withhold R79 million until a financial guarantee is furnished by Neotel as per clause 7.2 of the Agreement. (Annexure C).

**BACKGROUND:**

2. On 14 June 2013, Transnet issued a Request for Proposal (RFP) to the open market for provision of Network Services. This RFP closed on 13 August 2013 and five (5) responses were received from Neotel, T-Systems SA (Pty) Ltd (T-Systems), Dimension Data (Di Data), Telkom and Vodacom, respectively.

3. After an extensive evaluation process, Neotel was selected by the Cross Functional Evaluation Team (CFET) as the preferred bidder and issued with a Letter of Intent (LOI) effective from 18 August 2014 until 17 December 2014.

4. Negotiations with Neotel commenced in September 2014 and were successfully concluded in the first week of December 2014.

**DISCUSSION:**

5. The RFP was originally advertised to appoint a service provider to provide Network Services to Transnet over a period of 3 years with an option to extend for 2 years. During negotiations it became apparent that a 5 year contract option was a more viable option compared to a 3 year contract from both a pricing and operational point of view.

6. The Cross Functional Negotiation Team (CFNT) requested Neotel to provide pricing for both 3 and 5 years options respectively as part of their Best and Final Offer (BAFO) submission after discussing this option with Transnet Management.

7. Neotel was also requested to include the costs for Transition from the current SLAs to the new SLAs and the cost of the Assets buy-back for a portion of the assets, mainly campus assets, that were sold to Neotel during the sale of Transtel which Transnet now wanted to buy back from Neotel as they form part of Transnet's core network which is critical for its operations.

8. Neotel submitted both pricing options as requested by Transnet and the final pricing on both options was as follows:

| Item name | 3 year option | 5 year option |
|---|---|---|
| Monthly recurring charges (MRC) | R1 155 043 201 | R 1 573 988 003 |
| Transition Cost | R 175 833 315 | R 225 000 000.00 |
| Assets buy-back | R 200 000 000 | R 200 000 000.00 |
| Total | R 1 530 876 516 | R 1998 988 003 |

9. Based on the above pricing, the monthly recurring charges based on a 3 year option is R32 084 533 per month compared to R26 233 133 per month over a 5 year period. The total cost for a 3 year agreement which can be extended for a further two years would be approx. R2 300 905 317 compared to an outright 5 year agreement which is priced at R1 998 988 003, representing a total saving of R301 917 314. The 5 year contract option will also enable Transnet to "sweat the assets" and benefit from year on year pricing reductions that will form part of the new 5 year contract. See final pricing workbook on Annexure D of this memorandum.

10. In addition to the pricing benefits, a 5 year agreement will allow Transnet the opportunity to finalise and implement the network strategy, which will allow Transnet the ability to transition off the Neotel network which is currently an extremely complex, expensive and lengthy process.

11. It is against the above background that the Group Chief Executive is requested to approve a 5-year fixed term contract to Neotel for provision of Network Services to Transnet SOC Limited as opposed to the previously proposed 3 years with an option to extend for a further 2 years.

**APPROVALS AND DELEGATION:**

12. The Transnet Board of Directors (Board) delegated it's authority to the Acquisition and Disposals Committee (ADC) to approve the Network Services Sourcing Strategy and RFP process. (See Annexure E)
13. The ADC subsequently delegated its authority to the GCE to approve the Network Services RFP, advertise, negotiate, award, contract and sign all relevant documentation in line with the approved strategy. (See Annexure F)
14. The Group Chief Executive has already provided the following approvals:
    - Approval to advertise and issue a RFP to the open market for provision of Network Services for a period of three (3) years with an option to extend for another two (2) years; (See Annexure G)
    - Approval to conduct Due Diligence and Negotiations on the Network Services RFP; (See Annexure H)
    - Approval of the Letter of Intent to Neotel, informing it that it had been awarded the preferred bidder status. (See Annexure I).

**FINANCIAL IMPLICATIONS:**

15. The estimated contract award to Neotel for a period of five (5) years including Transition costs and Assets buy-back is estimated at R2 billion.

**BUDGET IMPLICATIONS:**

16. All Transnet ODs and Specialist Business Units (SBUs) have budgets available for their respective Network Services requirements.

**RECOMMENDATION:**

17. It is recommended that the Group Chief Executive (GCE):
    - Approves the award of the Network Services contract to Neotel for a period of five (5) years with effect from 01 December 2014 to 30 November 2019; and
    - Signs the Master Services Agreement (MSA) for provision of Network Services between Transnet SOC Limited and Neotel. (See Annexure A); and
    - Sign a letter informing Neotel that Transnet will not invoke it's rights to Step-in as per clause 51.1.5 of the Master Services Agreement, should the Vodacom (Pty) Ltd purchase of Neotel be approved (Annexure B); and
    - Signs a letter informing Neotel that Transnet will withhold R79 million until a financial guarantee is furnished by Neotel as per clause 7.2 of the Agreement. (Annexure C).

**COMPLIED BY**

Macdonald Mathebula
Commodity Manager: Group Strategic Sourcing
Date: 05/12/2014

**RECOMMENDED / ~~NOT RECOMMENDED~~**

Mandla Dube
Category Manager: Group Strategic Sourcing
Date: 5/12/2014

**RECOMMENDED / ~~NOT RECOMMENDED~~**

Gerrie van der Westhuizen
Executive Manager: Office of the Head-EIMS
Date: 05/12/2014

**RECOMMENDED / ~~NOT RECOMMENDED~~**

Fanie van der Walt
Executive Manager: Group Strategic Sourcing
Date: 05/12/2014

RECOMMENDED
Loyiso Mnqandi
Acting GM: Group Legal
DATE: 05/12/2014

**RECOMMENDED / NOT RECOMMENDED**

See attached email.

Mantsika Matooane
Group Executive: EIMS
Date:

**RECOMMENDED / ~~NOT RECOMMENDED~~**

Ndiphiwe Silinga
Group Executive: Legal Services
Date: 05/12/2014

Subject to the agreed FS terms per telecon of 05/12/2014 at 17h00

**RECOMMENDED / ~~NOT RECOMMENDED~~**

PP
Garry Pita
Group Chief Supply Chain Officer
Date: 5/12/14

**RECOMMENDED / ~~NOT RECOMMENDED~~**

Anoj Singh
Group Chief Financial Officer
Date: 15/12/14.

**APPROVED / ~~NOT APPROVED~~**

Brian Molefe
Group Chief Executive
PP Date: 15/12/2014
Karl Socikwa
Acting GCE

# ANNEXURE "MSM 44"

**Mohammed Mahomedy Transnet Corporate JHB**

**From:** Mohammed Mahomedy Transnet Corporate JHB
**Sent:** Friday, September 2, 2016 10:27 AM
**To:** Helen Walsh Corporate JHB
**Cc:** Mario van der Walt Transnet Corporate JHB; Yusuf Mahomed Transnet Corporate JHB
**Subject:** Re: McKinsey

Hi Helen

In addition to the Mc K swat contract, I would like to note the ffg

1. GCiA has engaged Trillian on the 16 August - this engagement has a specific scope and is provided pro bono by Trillian. All this is properly recorded.
- are we expected to provide a memo for this piece as well

2. Unfortunately we also need to raise the invoices recently published in the media.
GCiA has been referenced in the press for swat 2 and DCT costs
I do not see these on the schedule (could be oversight on my side)
- schedules we compile must be tested for completeness and accordingly be complete
- as far as I am aware GCiA did not engage Trillian for any of these invoices and these were not signed by GCiA (I have checked with my colleagues at GCiA as well). Accordingly I am not sure who will prepare the memos for these amounts

I am back at the office on Monday if there is a need to meet

Thanks and regards
Mohammed
Sent from my iPhone

On 31 Aug 2016, at 11:05 AM, Helen Walsh Corporate JHB <Helen.Walsh@transnet.net> wrote:

Dear Mario and Mohammed

Please could you prepare "benefits" realisation memos for the attached contracts (those sections applicable to cost sweep and capital respectively), that:

- Reflect the outcome of the contracts; and
- Support the non-payment of the variable fees as agreed.

Mohammed, if you could share the template that I believe you have with Mario and me that would be great.

Thank you.

Kind regards

<image001.gif>

Helen Walsh
General Manager: Group Taxation
Group Taxation
Transnet SOC Ltd

<image002.gif>011 308 2208
<image004.gif>011 308 2071
www.transnet.net

<image003.gif>083 275 1331
<image005.gif>helen.walsh@transnet.net

**From:** "Helen Walsh Corporate JHB" [mailto:Helen.Walsh@transnet.net]
**Sent:** 31 August 2016 10:52 AM
**To:** Helen Walsh Corporate JHB <Helen.Walsh@transnet.net>
**Subject:** Attached Image

<TP-01-NEW_COP007_15_3460_001.pdf>